



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: Retirement Admin. Changes Act of 2024.
Bill Number: House Bill 1020 (First Edition)
Sponsor(s): Rep. Carson Smith

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1020, V.1 (\$ in thousands)

	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Parts 1 through 6 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), National Guard Pension Fund (NGPF), Optional Retirement Program (ORP)

Part 1: Clarifies that a TSERS retirement benefit will be suspended if the beneficiary is actively participating in the ORP or in a "similar benefit" offered by UNC Healthcare, ECU Medical Faculty Practice Plan, or ECU Dental School Clinical Operations, consistent with current administrative practice for TSERS. Both Buck, 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 funded status of TSERS.

Part 2: Clarifies that an employee is not eligible to receive a retirement allowance from TSERS, LGERS, or CJRS while also receiving severance pay from an employer in that system. Both actuaries estimate that this section will have no material impact on the contribution rates or funded status of TSERS, LGERS, or CJRS.

Part 3: Clarifies that contributions are not considered submitted by an employer until the information associated with those contributions is also submitted. Both actuaries estimate that this section will have no material impact on the contribution rates or funded status of TSERS or LGERS.

Part 4: Allows an LRS retirement benefit to be paid when the member dies after the effective date of an approved retirement but before the first payment and specifies how the form of payment and beneficiary shall be determined. Both actuaries estimate that this section will have no material impact on the contribution rates or funded status of LRS.

Part 5: Restricts the ability of an organization to have deductions withheld from retirement benefit payments to those organizations that had received deductions as of December 31, 2024 and meet the other statutory requirements. Both actuaries estimate that this section will have no material impact on the contribution rates or funded status of TSERS, LGERS, CJRS, LRS, or NGPF.

Part 6: Extends the sunset of the Legislative Enacted Implementation Arrangement (LEIA) from 2026 to 2035 and allows the LEIA to be used for administrative or information technology purposes in addition to implementation of legislation. Both actuaries estimate that this section will have no material impact on the contribution rates or funded status of TSERS or LGERS.

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, 2022 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2022 unless otherwise noted, M = millions)				
	TSERS	LGERS	CJRS	LRS
Active Members				
Count	297,802	135,706	581	170
General Fund Compensation	\$12,657M		\$101M	\$4M
Valuation Compensation (Total)	\$17,601M	\$8,292M	\$88M	\$4M
Average Age	46	44	54	60
Average Service	10.9	9.6	11.3	7.4
Inactive Members				
Count	218,956	101,818	60	108
Retired Members				
Count	246,374	82,466	816	288

Annual Benefits	\$5,259M	\$1,729M	\$55M	\$2M
Average Age	72	69	74	78
New Retirees During 2023	11,416	4,360	41	17

Financial Statistics (as of 12/31/2022 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$96,675M	\$37,090M	\$877M	\$30M
Actuarial Value of Assets (AVA)	\$85,407M	\$32,708M	\$721M	\$31M
Market Value of Assets (MVA)	\$77,445M	\$29,655M	\$654M	\$28M
Unfunded Accrued Liability (AL - AVA)	\$11,268M	\$4,382M	\$155M	(\$0M)
Funded Status (AVA / AL)	88%	88%	82%	101%
Required Employer Contribution for FY 2024-25 (as % of pay)	16.79%	13.60% (non-LEO)	35.96%	19.32%
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%	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>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%

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

Buck, "House Bill 1020 – Retirement Admin. Changes Act of 2024", May 13, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1020: Retirement Admin Changes Act of 2024", May 6, 2024, 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