



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2013**

**Legislative Retirement Note**

**BILL NUMBER:** House Bill 1193 (First Edition)  
**SHORT TITLE:** Retirement Technical Corrections Act of 2014.  
**SPONSOR(S):** Representatives Collins and S. Ross

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**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), Consolidated Judicial Retirement System (CJRS), Local Governmental Employees' Retirement System (LGERS), Disability Income Plan (DIP), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), Legislative Retirement Fund (LRF), and the Separate Insurance Benefits Plan for State and Local Governmental Law Enforcement Officers (SIBP).

**BILL SUMMARY:**

Section 1: Amends G.S. 58-86-2(9) to clarify the definition of an inactive member in the FRSWPF.

Section 2: Amends G.S. 135-5(r) to clarify that a minimum benefit established in 1973 only applies to those retired prior to January 1, 1970.

Section 3: Amends G.S. 135-5(m2) and G.S. 128-27(m2) to allow LGERS members to annuitize various types of retirement account balances on a market-value basis. These opportunities are already available to TSERS members.

Section 4: Amends various statutes applicable to TSERS, LGERS, and CJRS to define the term Consumer Price Index as it applies to limits on the amount that can be earned by re-employed retirees and recipients of disability benefits.

Section 5: Amends G.S. 135-48.1(2) and G.S. 128-27(c) to correct references to FRSWPF statutes.

Section 6: Amends G.S. 135-53(16) to clarify that a member of CJRS only invalidates his retirement if he returns to service covered in CJRS in the month following retirement. The existing statute says that the retirement is invalidated due to any work for the State, a change that was made in SL 2013-288, a previous act making technical changes to retirement statutes. The CJRS has been administered as modified in this bill.

Section 7: Amends G.S. 120-4.2(c) to clarify the procedure for transferring funds to pay benefits from the LRF.

Section 8: Amends G.S. 135-103(b)(2) to correct a typographical error in the DIP statutes.

Section 9: Amends G.S. 143-166.60(e) to reflect gender-neutral language in provisions governing the SIBP.

**EFFECTIVE DATE:** Section four becomes effective January 1, 2015. All other sections would become effective July 1, 2014.

**ESTIMATED IMPACT ON STATE:**

Both Buck Consultants, the actuary for the retirement systems other than the LRF, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact on the contribution rates or liabilities of any of the systems affected. The LRF is a closed fund with only six members and the bill does not affect the benefits paid nor does it affect the total amount transferred for payment over the course of a year.

**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, 2012 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2012 unless otherwise noted, M = millions)					
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>FRSWPF</u> <u>(6/30/12)</u>	<u>DIP</u>
<b>Active Members</b>					
Count	312,512	122,270	564	40,870	326,594
General Fund Compensation	\$9,891M		\$70M		\$10,773M
Valuation Compensation (Total)	\$13,597M	\$5,427M	\$71M	Not applicable	\$15,134M
Average Age	45	44	55	40	45
Average Service	10.5	10.3	13.2	11.3	Not avail.
<b>Inactive Members</b>					
Count	124,976	47,663	48	154	Not applicable
<b>Retired Members</b>					
Count	179,908	54,547	559	11,912	6,884
Annual Benefits	\$3,713M	\$972M	\$33M	\$24M	\$77M
Average Age	70	68	72	68	Not avail.
New Retirees During 2013	12,400	4,400	40	575	1,096

Financial Statistics (as of 12/31/2012 unless otherwise noted, M = millions)					
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>FRSWPF</u> <u>(6/30/2012)</u>	<u>DIP</u>
Accrued Liability (AL)	\$63,630M	Not meaningful	\$528M	\$404M	Not meaningful
Actuarial Value of Assets (AVA)	\$59,912M	\$20,295M	\$481M	\$339M	\$433M
Market Value of Assets (MVA)	\$57,780M	\$19,723M	\$466M	\$322M	\$446M
Unfunded Accrued Liability (AL - AVA)	\$3,718M	Not meaningful	\$46M	\$65M	Not meaningful
Funded Status (AVA / AL)	94%	Not meaningful	91%	84%	Not meaningful
Annual Required Contribution (ARC) for FY 2014-15 (as % of pay)	8.76%	6.94% (non-LEO)	26.55%	\$14.6M	0.41%
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%	5.75%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	4.25% - 8.55%	5.00% - 5.95%	Not applicable	4.25% - 9.10%
Cost Method	Entry Age Normal	Frozen Entry Age	Projected Unit Credit	Entry Age Normal	Aggregate
Amortization	12 year, closed, flat \$	Not applicable	12 year, closed, flat \$	12 year, closed, flat \$	Not applicable
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA					

Benefit Provisions					
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>FRSWPF</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	\$170 per month	65% of salary for long-term
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/10 (5 if hired < Aug 2011)	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/10 (5 if hired < Aug 2011)	55/20	Any/5 with permanent disability
Employee contribution (as % of pay)	6%	6%	6%	\$10 per month	None

No information is shown for the LRF because it is a closed fund with only six members. No information is shown for the SIBP because the statute change is simply making the language gender-neutral.

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:**

Buck Consultants, "Retirement Technical Corrections Act of 2014 (House Bill 1193)", May 27, 2014, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1193: An Act to Make Technical Changes to the Statutes Affecting the State Retirement Systems", May 27, 2014, 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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Fiscal Research Division

**DATE:** June 2, 2014



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