

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

BILL NUMBER: Senate Bill 744 (Third Edition)

SHORT TITLE: Appropriations Act of 2014.

SPONSOR(S):

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts

SYSTEM OR PROGRAM AFFECTED: Teachers’ and State Employees’ Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), and the North Carolina Firefighters’ and Rescue Squad Workers’ Pension Fund (FRSWPF).

BILL SUMMARY:

Section 20.1: Amends G.S. 58-86-55 to allow payment of monthly benefits in the FRSWPF at age 55 with 20 years of service, despite continued paid employment as a firefighter or rescue squad worker.

Section 35.18: Grants cost-of-living adjustments (COLAs) of eight-tenths of one percent (0.8%), effective July 1, 2014, for retirees in the TSERS, CJRS, and LRS.

No other sections of the Third Edition modify retirement benefits or statutes.

EFFECTIVE DATE: The provision in Section 20.1 is effective October 1, 2014. The provision in Section 35.18 is effective July 1, 2014.

ESTIMATED IMPACT ON STATE:

Section 20.1

Buck Consultants, the actuary for the FRSWPF, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of Section 20.1 will increase the normal cost and accrued liability contributions in FY 2014-15 and subsequent years as follows:

	<u>Buck Consultants</u>	<u>Hartman & Associates</u>
Normal Cost	\$ 200,000	\$ 228,000
Accrued Liability Contribution	\$ 800,000	\$ 872,000
Total Annual Cost	\$ 1,000,000	\$ 1,100,000

The contributions above are paid entirely from the General Fund.

Section 35.18

Buck Consultants, the actuary for the TSERS, CJRS, and LRS, estimates that the provisions of Section 35.18 will have an annual cost in FY 2014-15 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll*	0.30%	0.48%	0.52%
General Fund	\$ 29,673,000	\$ 336,000	\$ 18,824
Highway Fund	\$ 987,000	\$ 0	\$ 0
Receipt Funds	\$ 11,027,082	\$ 0	\$ 0
Total Cost	\$ 41,687,082	\$ 336,000	\$ 18,824

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of Section 35.18 will have an annual cost in FY 2014-15 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll*	0.29%	0.48%	0.53%
General Fund	\$ 28,683,900	\$ 336,000	\$ 19,186
Highway Fund	\$ 954,100	\$ 0	\$ 0
Receipt Funds	\$ 10,659,513	\$ 0	\$ 0
Total Cost	\$ 40,297,513	\$ 336,000	\$ 19,186

* Percent of payroll figures are rounded up to the next highest hundredth of a percent.

The figures above assume that no actuarial gains are used to cover the cost of the COLA provisions. Both the CJRS and the LRS have sufficient gains available to cover the full cost of the COLA and the bill uses those gains in part to cover the cost of the COLA.

Appropriations

The Third Edition appropriates funds and sets contribution rates sufficient to cover the increased cost of Sections 20.1 and 35.18 and contribute the amount recommended by the actuary to properly fund existing benefits.

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>CJRS</u>	<u>LRS</u>	<u>FRSWPF</u> <u>(6/30/12)</u>
Active Members				
Count	312,512	564	169	40,870
General Fund Compensation	\$9,891M	\$70M	\$4M	
Valuation Compensation (Total)	\$13,597M	\$71M	\$4M	Not applicable

Average Age	45	55	60	40
Average Service	10.5	13.2	8.0	11.3
Inactive Members				
Count	124,976	48	81	154
Retired Members				
Count	179,908	559	283	11,912
Annual Benefits	\$3,713M	\$33M	\$2M	\$24M
Average Age	70	72	76	68
New Retirees During 2013	12,400	40	37	575

Financial Statistics (as of 12/31/2012 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>FRSWPF</u> <u>(6/30/2012)</u>
Accrued Liability (AL)	\$63,630M	\$528M	\$24M	\$404M
Actuarial Value of Assets (AVA)	\$59,912M	\$481M	\$29M	\$339M
Market Value of Assets (MVA)	\$57,780M	\$466M	\$28M	\$322M
Unfunded Accrued Liability (AL - AVA)	\$3,718M	\$46M	(\$6M)	\$65M
Funded Status (AVA / AL)	94%	91%	123%	84%
Annual Required Contribution (ARC) for FY 2014-15 (as % of pay)	8.76%	26.55%	0.00%	\$14.6M
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	5.00% - 5.95%	7.50%	Not applicable
Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization	12 year, closed, flat \$	12 year, closed, flat \$	8 year, open, flat \$	12 year, closed, flat \$

Benefit Provisions				
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>FRSWPF</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	\$170 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/10 (5 if	50/24; 65/10 (5 if hired < Aug 2011)	65/5	55/20

	hired < Aug 2011)			
Employee contribution (as % of pay)	6%	6%	7%	\$10 per month

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, “Volunteer Fire & Rescue Finances (House Bill 1034 and Senate Bill 747)”, May 21, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck Consultants, “Cost of Living Adjustments for State, Judicial and Legislative Retirement Systems”, May 16, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 1034/Senate Bill 747, Section 3: An Act to Amend the Supplemental Pensions for Firefighters and Rescue Squad Workers”, May 27, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems”, May 14, 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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DATE: June 3, 2014



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