NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

Legislative Retirement Note

Short Title: FAIR 2018.-AB
Bill Number: House Bill 1056 (Second Edition)
Sponsor(s): Representatives Collins, McNeill, Ross, and Dulin

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 1056, V. 2 ($ in thousands)

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
State Impact					
General Fund	-	(518)	(536)	(555)	(574)
Highway Fund	-	(13)	(14)	(14)	(15)
Other/Receipts	-	(229)	(237)	(245)	(254)
TOTAL STATE EXPENDITURES	**-**	**(760)**	**(787)**	**(814)**	**(843)**
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	**-**	**-**	**-**	**-**	**-**

ACTUARIAL IMPACT SUMMARY

Sections 2, 4, 6, 7, 9, and 10 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Local Governmental Employees' Retirement System (LGERS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), and Disability Income Plan (DIP)

Section 2: Requires the State and political subdivisions of the State to garnish wages to collect amounts owed to TSERS and LGERS under certain conditions. Both Conduent, 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 liabilities of TSERS or LGERS.

Section 4: Allows the Retirement Systems Division to intercept credit card receipts from participating employers to collect amounts owed to TSERS, LGERS, and DIP under certain conditions. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or DIP.

Section 6: Prohibits re-purchase of retirement creditable service in TSERS, LGERS, CJRS, LRS and FRSWPF that has been forfeited due to a felony conviction. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of these systems.

Section 7: Eliminates use of service rendered while participating in the University or Community College Optional Retirement Program (ORP) toward determining benefit eligibility for TSERS. This change applies to members first hired on or after July 1, 2021. Conduent states that they are unable to quantify the actuarial impact of this section. Hartman & Associates estimates that this section will have no material impact on the contribution rates or liabilities of TSERS.

Section 9: Clarifies treatment of contribution-based benefit cap liabilities generated when a member has multiple employers. Both actuaries estimate that this section will have no material impact on the contribution rates or liabilities of TSERS or LGERS.

Section 10: Limits the time period for application for DIP Short-Term Disability to no longer than 365 days after the commencement of the short-term disability waiting period. This section also provides that, effective July 1, 2019, employers are no longer reimbursed from DIP for the cost of providing short-term disability benefits during the second six months of Short-Term Disability. Conduent estimates that no longer reimbursing employers will decrease the actuarially determined contribution for DIP by 0.05% of pay and that each 10% reduction in utilization due to greater employer management of disability cases will reduce benefits paid by DIP and employers combined in FY 2019-20 by about $760,000. Hartman & Associates estimates that roughly $10 million in annual payments will be shifted from DIP to State employers with no significant net impact on the State. The estimate in the Summary Table assumes a 10% reduction in utilization producing a savings of about $760,000. If this section becomes law, then in FY 2019-20 the contribution rate to DIP can be reduced by 0.05% of pay and additional funds appropriated to State employers to pay short-term disability benefits.

Conduent notes with regard to Sections 2 and 4 that these measures could possibly result in a higher rate of overpayment collection, which would be a positive outcome for the Retirement System. That being said, within the actuarial framework, they are unable to quantify the actuarial impact based on the information provided.

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, 2016 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2016 unless otherwise noted, M = millions)				
	TSERS	LGERS	FRSWPF	DIP
Active Members				
Count	305,013	126,647	25,210	323,469
General Fund Compensation	$10,652M			$11,860M
Valuation Compensation (Total)	$14,282M	$6,049M	Not applicable	$16,107M
Average Age	45	44	40	Not avail.
Average Service	10.7	10.2	10.8	Not avail.
Inactive Members				
Count	151,581	63,682	17,235	0
Retired Members				
Count	208,443	65,930	13,940	6,617
Annual Benefits	$4,343M	$1,252M	$28M	$79M
Average Age	71	68	68	Not avail.
New Retirees During 2017	11,100	4,200	700	800

Financial Statistics (as of 12/31/2016 unless otherwise noted, M = millions)				
	TSERS	LGERS	FRSWPF	DIP
Accrued Liability (AL)	$74,548M	$25,654M	$452M	$393M
Actuarial Value of Assets (AVA)	$67,377M	$24,425M	$402M	$442M
Market Value of Assets (MVA)	$64,247M	$23,309M	$384M	$434M
Unfunded Accrued Liability (AL - AVA)	$7,171M	$1,229M	$50M	($49M)
Funded Status (AVA / AL)	90%	95%	89%	113%
Required Employer Contribution for FY 2018-19 (as % of pay)	11.98%	7.75% (non-LEO)	$18.3M	0.13%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	Not applicable	3.50% - 8.10%
Assumed Rate of Investment Return:	7.20%			3.75%
Cost Method:	Entry Age Normal			Aggregate
Amortization:	12 year, closed, flat dollar			N/A
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015				

Benefit Provisions				
	TSERS	LGERS	FRSWPF	DIP
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	$170 per month	65% of base salary up to a maximum of $3,900 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	55/20	Any/5
Employee contribution	6% of pay	6% of pay	$10 per month	0% of pay

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

Conduent, "Financial Accountability, Integrity and Recovery Act of 2018 – House Bill 1056 – 2nd Ed.", June 8, 2018, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 1056: An Act to Promote Financial Accountability, Integrity, and Recovery of Assets in the TSERS, LGERS, CJRS, LRS, FRSWPF, NGPF, RDSPF, DIP, and SHP", June 5, 2018, 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

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