



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 97 (Third Edition)

SHORT TITLE: 2015 Appropriations Act.

SPONSOR(S): Representatives Dollar, L. Johnson, McGrady, and Lambeth

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), Separate Insurance Benefits Plan (SIBP), special separation allowance, and the National Guard Pension Fund (NGPF).

BILL SUMMARY:

Section 30.21: Grants cost-of-living adjustments (COLAs) of two percent (2%), effective July 1, 2015, for retirees in the TSERS, CJRS, and LRS.

Section 30.23: Defines a probation/parole officer for retirement benefit purposes and changes the definition of law-enforcement officer in G.S. 135-1(11c) to include probation/parole officers with respect to service rendered on or after July 1, 2015. Changing the definition of law-enforcement officer has the following impacts in other areas of the General Statutes:

- G.S. 135-5(b19) says “A member who is a law enforcement officer” will be eligible for unreduced retirement at age 55 with 5 years of service as a law-enforcement officer or reduced retirement at age 50 with 15 years of service as a law-enforcement officer. Because G.S. 135-5 is in the same chapter as G.S. 135-1(11c), changing the definition of law-enforcement officer extends those retirement age provisions to probation/parole officers.
- G.S. 143-166.41(a) says that the separation allowance is available to “every sworn law-enforcement officer as defined by G.S. 135-1(11c)...”. By changing the definition in G.S. 135-1(11c), this section causes probation/parole officers to start earning service toward the separation allowance. While only service on or after July 1, 2015 counts toward the requirement to have 5 years of law enforcement service immediately prior to retirement, probation/parole officer service prior to July 1, 2015 will count toward the requirement that half of an employee’s career be as a law enforcement officer.
- G.S. 143-166.60 says that the SIBP is established for “all law enforcement officers, as defined in G.S. 135-1(11c)...”. By changing the definition in G.S. 135-1(11c), the bill makes probation/parole officers eligible for the SIBP.

The bill does not change the definition of law enforcement officer in G.S. 143-166.30(a)(4). That is the definition that applies to the NC 401(k) Plan. Thus, the bill does not extend the law-enforcement 401(k) benefits to probation/parole officers.

Because the bill only changes the definition of law-enforcement officer with respect to service rendered on or after July 1, 2015, most probation/parole officers would have to work for at least five more years to be eligible to retire at a different age or receive the separation allowance.

Section 30.24: Amends G.S. 127A-40 to increase the monthly benefit in the NGPF to \$105 for 20 years of service and \$10.50 for each additional year of service, up to a maximum of \$210. The benefit is currently \$99 for 20 years of service and \$9.90 for each additional year of service, up to a maximum of \$198.

No other sections of the bill modify retirement benefits or statutes.

EFFECTIVE DATE: All of these sections are effective July 1, 2015

ESTIMATED IMPACT ON STATE:

Section 30.21

Buck Consultants, the actuary for the TSERS, CJRS, and LRS, estimates that the provisions of this bill will have an annual cost in FY 2015-16 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.78%	1.28%	1.60%
General Fund	\$ 77,329,200	\$ 908,800	\$ 57,920
Highway Fund	\$ 2,457,000	\$ 0	\$ 0
Receipt Funds	<u>\$ 33,015,224</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Annual Cost	\$ 112,801,424	\$ 908,800	\$ 57,920

Buck Consultants estimates that this Section will increase the unfunded liability of TSERS by roughly \$758 million, a little over 1% of the accrued liability of \$65,806 million. The TSERS liability was 94.8% funded at the end of 2013. The additional unfunded liability is projected to be paid off over 12 years by the increased contributions shown above.

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of this bill will have an annual cost in FY 2015-16 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.76%	1.26%	1.56%
General Fund	\$ 75,346,400	\$ 894,600	\$ 56,472
Highway Fund	\$ 2,394,000	\$ 0	\$ 0
Receipt Funds	<u>\$ 32,168,680</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Annual Cost	\$ 109,909,080	\$ 894,600	\$ 56,472

The figures above assume that no actuarial gains are used to cover the cost of the COLA provisions. TSERS and CJRS have sufficient gains available to cover a portion of the cost of the COLA and the bill uses those gains for that purpose.

Section 30.23

Buck Consultants, the actuary for the Retirement System, estimates that the change to the TSERS retirement ages will result in an increase in the annual required contribution of 0.02% of payroll, or \$2.0 million from the General Fund. Buck estimates an increase in the SIBP liability of \$0.1 million, which would not eliminate the surplus in the SIBP. Buck also estimated negligible decreases in the contributions and/or liability for the Disability Income Plan and Death Benefit Plan due to the expected change in retirement patterns.

Hartman & Associates, the actuary for the General Assembly, estimates that the change to the TSERS retirement ages will result in an increase in the annual required contribution of 1.39% of the probation/parole officer payroll, or roughly \$1.0 million. Hartman & Associates estimates an increase in the SIBP liability of \$0.2 million, which would not eliminate the surplus in the SIBP.

The actuaries estimated the following cash flow impact due to the additional separation allowances:

<u>Year</u>	<u>Buck Consultants</u>	<u>Hartman & Associates</u>
FY 2015-16	\$0	\$0
FY 2016-17	\$0	\$0
FY 2017-18	\$0	\$0
FY 2018-19	\$0	\$0
FY 2019-20	\$0	\$0

The separation allowances paid after FY 2020-21 would be expected to increase as retiring probation/parole officers become eligible for the benefit. Estimates for the 5 years following the years shown in the table are not available based on the wording in Section 30.23, but based on other estimates the additional annual payouts are expected to be less than \$3 million in each year.

Section 30.24

Buck Consultants, the actuary for the NGPF, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of Section 30.24 will increase the normal cost and accrued liability contributions in FY 2015-16 and subsequent years as follows:

	<u>Buck Consultants</u>	<u>Hartman & Associates</u>
Normal Cost	\$ 32,214	\$ 32,000
Accrued Liability Contribution	<u>\$ 1,161,150</u>	<u>\$ 1,161,000</u>
Total Annual Cost	\$ 1,193,364	\$ 1,193,000

The contributions above are paid entirely from the General Fund.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of these three sections 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, 2013 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2013 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>NGPF</u>
Active Members				
Count	310,370	566	170	5,535
General Fund Compensation	\$9,914M	\$71M	\$4M	
Valuation Compensation (Total)	\$13,608M	\$71M	\$4M	Not applicable
Average Age	45	55	57	38
Average Service	10.6	13.1	5.9	15.9
Inactive Members				
Count	125,513	53	94	5,117
Retired Members				
Count	187,448	584	311	4,354
Annual Benefits	\$3,871M	\$35M	\$2M	\$8M
Average Age	70	72	76	70
New Retirees During 2014	11,500	30	3	150

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>NGPF</u>
Accrued Liability (AL)	\$65,806M	\$549M	\$25M	\$140M
Actuarial Value of Assets (AVA)	\$62,364M	\$507M	\$29M	\$103M
Market Value of Assets (MVA)	\$62,789M	\$512M	\$30M	\$104M
Unfunded Accrued Liability (AL - AVA)	\$3,442M	\$43M	(\$5M)	\$37M
Funded Status (AVA / AL)	95%	92%	119%	74%
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	8.69%	26.37%	1.80%	\$5.9M
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 \$
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>CJRS</u>	<u>LRS</u>	<u>NGPF</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	\$99 to \$198 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5	60/20
Employee contribution (as % of pay)	6%	6%	7%	None

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, "Teachers' and State Employees' Retirement System of North Carolina, Report on the Seventy-First Actuarial Valuation Prepared as of December 31, 2013", October 2, 2014, which is available on the Department of State Treasurer website.

Buck Consultants, "Consolidated Judicial Retirement System of North Carolina, Report on the Actuarial Valuation Prepared as of December 31, 2013", October 2, 2014, which is available on the Department of State Treasurer website.

Buck Consultants, "Legislative Retirement System of North Carolina, Report on the Actuarial Valuation Prepared as of December 31, 2013", October 6, 2014, which is available on the Department of State Treasurer website.

Hartman & Associates, LLC, "1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems", March 10, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Buck Consultants, "Probation/Parole Officers Retirement (House Bill 555)", April 10, 2015, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 555: An Act to Enhance the Benefits of Probation/Parole Officers Who Are Members of the TSERS”, April 8, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck Consultants, “Actuarial Impact of \$6 Benefit Increase for the North Carolina National Guard Pension Fund”, May 15, 2015, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Increase Maximum Pension for Retired Members of the North Carolina National Guard”, May 15, 2015, 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: May 21, 2015



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