

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Retirement Note

BILL NUMBER: House Bill 616 (First Edition)
SHORT TITLE: Local Governmental Employees' Retire. COLA.
SPONSOR(S): Representative McNeill

FUNDS AFFECTED: Local government funds

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System (LTERS)

BILL SUMMARY: Provides a 1.0% cost-of-living adjustment (COLA) to retirees in LTERS, effective July 1, 2015.

EFFECTIVE DATE: July 1, 2015

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Both Buck Consultants, the actuary for LTERS, and Hartman & Associates, the actuary for the General Assembly, estimate that each 1% COLA requires an increase in the LTERS employer contribution rate of 0.24% of pay. Because the LTERS Board of Trustees has already granted a 0.625% COLA, as authorized under G.S. 128-27(k), the net additional impact of this bill is as follows:

Table with 2 columns: Description and Amount. Rows include contribution rate increases for 1% COLA (0.24%), 0.625% COLA (0.15%), net increase (0.09%), estimated active employee compensation (\$5,726,580,000), and estimated increase in annual local government contributions (\$5,153,922).

Under G.S. 128-27(k), the Board of Trustees is only authorized to grant a COLA to the extent it can be funded by investment gains. 0.625% is the maximum COLA that could be funded with investment gains.

Local governments that participate in LTERS are paying a normal contribution rate of 7.07% on behalf of general employees in FY 2014-15. The normal contribution in the December 31, 2013 valuation, which applies to FY 2015-16, is 6.52% for general employees.

**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>LGERS</u>
Active Members	
Count	123,455
Valuation Compensation (Total)	\$5,556M
Average Age	44
Average Service	10.3
Inactive Members	
Count	50,998
Retired Members	
Count	57,405
Annual Benefits	\$1,039M
Average Age	68
New Retirees During 2014	4,400

Financial Statistics (as of 12/31/2013 unless otherwise noted, M = millions)	
	<u>LGERS</u>
Accrued Liability (AL)	Not meaningful
Actuarial Value of Assets (AVA)	\$21,498M
Market Value of Assets (MVA)	\$21,784M
Unfunded Accrued Liability (AL - AVA)	Not meaningful
Funded Status (AVA / AL)	Not meaningful
Annual Required Contribution (ARC) for FY 2015-16 (as % of pay)	6.52% (non-LEO)
Assumed Rate of Investment Return	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 8.55%
Cost Method	Frozen Entry Age
Amortization	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>LGERS</u>
Formula	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%

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, "North Carolina Local Governmental Employees' Retirement System, Report on the Actuarial Valuation Prepared as of December 31, 2013", October 2, 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.

**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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**APPROVED BY:**

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Fiscal Research Division

**DATE:** April 17, 2015



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