



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2017

Legislative Retirement Note

BILL NUMBER: House Bill 176 (First Edition)
SHORT TITLE: Pensions Integrity Act of 2017.-AB
SPONSOR(S): Representatives Ross, Collins, and McNeill

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), Local Governmental Employees' Retirement System (LGERS), and the Sheriffs' Supplemental Pension Fund (SSPF).

BILL SUMMARY:

Section 1: Extends the Retirement System Division (RSD)'s access to an employing agency's persons and records when RSD staff is conducting a compliance investigation to detect errors and ensure accountability. RSD currently has access to these persons and records when conducting an investigation of fraud.

Section 2: Extends the time period during which an employing agency may make payments under the Contribution Based Benefit Cap provision in TSERS and LGERS. The Cap is intended to more accurately distribute the cost of "pension spiking", i.e. large increases in compensation during the four years that are used in calculating the benefit. With this change the employing agency could choose payment without interest between 3 and 15 months after the member's retirement or with interest between 3 and 27 months after retirement.

Section 3: Prohibits the Department of State Treasurer from making arrangements to deduct amounts from a beneficiary's retirement benefit to be paid to the former employer for providing health benefits. Arrangements made by local employers with the LGERS prior to January 1, 2017 would remain in effect until revoked by the beneficiary.

Section 4: Requires that employers who receive a report that they are likely to owe an additional contribution under the Contribution Based Benefit Cap must forward that report to certain governing bodies of the employer.

Section 5: Provides that a sheriff may elect to have accumulated sick leave as a member under the LGERS converted to eligible service as a sheriff under the Sheriff's Supplemental Pension Fund.

Section 6: Requires the N.C. Department of Revenue to provide copies of a member's state tax return on request by the Retirement Systems Division for use in fraud and compliance investigations.

Section 7: Provides that the State Health Plan Board of Trustees may not approve resolutions allowing local governments that were allowed to participate in the State Health Plan under uncodified local laws passed in 2004, 2005, and 2006 to enroll retirees in the Retiree Health Benefit Plan after January 1, 2017.

Section 8: Sets a floor on the employer contribution rates for TSERS and LGERS equal to the employee contribution rate.

EFFECTIVE DATE: Section 5 becomes effective July 1, 2017 and expires July 1, 2022. The other sections are effective when the bill becomes law.

ESTIMATED IMPACT ON STATE:

Both Conduent, the actuary for the Retirement Systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no near-term material impact on the contribution rates or liabilities of any of the systems affected.

Hartman & Associates notes that Section 8 could result in increased employer funding or require changes in the employee contribution rates in the long term. Conduent notes that Section 8 could have the impact of higher employer contributions and subsequently higher funded status than otherwise would have been required if current funding policies are altered or discontinued.

Conduent further notes with regard to Sections 1, 2, and 8 that these measures could possibly result in more contributions or lower administrative costs for the Retirement System, 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 System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2015 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

| Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions) | | | |
|---|--------------|--------------|---------------|
| | <u>TSERS</u> | <u>LGERS</u> | <u>SSPF</u> |
| Active Members | | | |
| Count | 305,291 | 124,974 | 100 |
| General Fund Compensation | \$10,185M | | |
| Valuation Compensation (Total) | \$13,897M | \$5,869M | Not available |
| Average Age | 45 | 44 | Not available |
| Average Service | 10.7 | 10.2 | Not available |
| Inactive Members | | | |
| Count | 143,214 | 59,289 | Not available |

| | | | |
|--------------------------|----------|----------|---------------|
| Retired Members | | | |
| Count | 201,522 | 63,110 | 94 |
| Annual Benefits | \$4,202M | \$1,182M | \$1M |
| Average Age | 71 | 68 | Not available |
| New Retirees During 2016 | 11,100 | 4,100 | Not available |

| Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions) | | |
|---|---------------|--------------------|
| | <u>TSERS</u> | <u>LGERS</u> |
| Accrued Liability (AL) | \$71,522M | \$24,360M |
| Actuarial Value of Assets (AVA) | \$66,169M | \$23,649M |
| Market Value of Assets (MVA) | \$62,669M | \$22,404M |
| Unfunded Accrued Liability (AL - AVA) | \$5,353M | \$711M |
| Funded Status (AVA / AL) | 93% | 97% |
| Required Employer Contribution for FY 2017-18 (as % of pay) | 10.33% | 7.50% (non-LEO) |
| Salary Increase Assumption (includes 3.50% inflation and productivity) | 3.50% - 8.10% | 3.50% - 7.75% |
| Assumed Rate of Investment Return: 7.25% | | |
| Cost Method: Entry Age Normal | | |
| Amortization: 12 year, closed, flat dollar | | |
| Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015 | | |
| The SSPF is not funded on an actuarial basis so these figures are not available for the SSPF. However, the benefits are adjusted to match revenue each year, so the SSPF does not have any long-term liabilities. | | |

| Benefit Provisions | | | |
|-------------------------------------|-------------------------------------|-------------------------------------|---|
| | <u>TSERS</u> | <u>LGERS</u> | <u>SSPF</u> |
| Formula | 1.82% x Service x 4 Year Avg Pay | 1.85% x Service x 4 Year Avg Pay | Lesser of: Share Value x Service, \$1,500 / month, 75% of Pay minus LGERS Benefit |
| Unreduced retirement age/service | Any/30; 60/25; 65 (55 for LEO)/5 | Any/30; 60/25; 65 (55 for LEO)/5 | 10 years of service as a sheriff in addition to LGERS requirements |
| Employee contribution (as % of pay) | 6% | 6% | 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:

Conduent, “Pensions Integrity Act of 2017 – House Bill 176”, March 9, 2017, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 176: An Act to Make Changes That Will Assist in Preventing and Detecting Fraud, Waste, and Abuse and in Ensuring the Fiscal Integrity of the TSERS, the Retiree Health Benefit, and the LGERS”, February 27, 2017, 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: March 13, 2017

Signed Copy Located in the NCGA Principal Clerk's Offices