NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: Bring Back Our Heroes.
Bill Number: Senate Bill 113 (First Edition)
Sponsor(s): Sen. Danny Earl Britt, Jr., Sen. Jim Perry, and Sen. Buck Newton

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 113, V.1 ($ in thousands)

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
State Impact					
General Fund Impact	79 to 6,982	218 to 7,546	334 to 7,992	436 to 7,896	477 to 8,341
Highway Fund Impact	- to 106	- to 109	- to 113	- to 116	- to 120
Other/Receipts Impact	- to 2,023	- to 2,088	- to 2,156	- to 2,226	- to 2,299
NET STATE IMPACT	**79 to 9,110**	**218 to 9,743**	**334 to 10,261**	**436 to 10,239**	**477 to 10,760**
Local Impact					
Local Governments	1,157 to 26,216	3,457 to 27,762	5,336 to 29,030	6,927 to 29,949	7,869 to 31,519
NET LOCAL IMPACT	**1,157 to 26,216**	**3,457 to 27,762**	**5,336 to 29,030**	**6,927 to 29,949**	**7,869 to 31,519**

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), State and local law enforcement special separation allowances.

Senate Bill 113 (First Edition) allows any TSERS or LGERS member who retired as a law enforcement officer (LEO) to continue to receive benefits under TSERS or LGERS while working as a LEO in any capacity. The bill is effective when it becomes law and applies to both current and future retirees.

Under current law, TSERS and LGERS retirees can work during retirement for participating employers with certain limitations and the following table compares the current law with the provisions of this bill:

	Current Law	Retired LEO working as a LEO under Senate Bill 113
Earnings Limitation	Max of 50% of pre-retirement earnings or $39,660 (in 2023)	Unlimited
Type of Employment	Part-time, temporary, interim, or fee-for-service	Any type
Contribute to TSERS/LGERS	No	Employer makes both employee and employer contributions
Earn service credit	No	No
Required Break in Service after Retirement	Six months (TSERS) One month (LGERS)	Six months (TSERS) One month (LGERS)

Buck, the actuary for the retirement systems, estimates that the bill will increase the actuarially determined employer contribution (ADEC) of TSERS by at most 0.03% of pay and of LGERS by at most 0.20% of pay for General Employees and Firefighters and 0.06% of pay for LEOs. The ADEC for General Employees and Firefighters increases because the increase in accrued liability is assumed to be amortized over the total LGERS payroll.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will not change the ADEC for TSERS and LGERS.

The actuaries estimate the following increases in Special Separation Allowance payments:

	Buck		Hartman & Associates	
Year	State	Local	State	Local
FY 2023-24	$ 3,394,000	$ 11,384,000	$ 78,657	$ 1,157,248
FY 2024-25	3,841,000	12,448,000	218,203	3,457,147
FY 2025-26	4,167,000	13,219,000	334,163	5,336,100
FY 2026-27	3,947,000	13,624,000	435,861	6,927,297
FY 2027-28	4,263,000	14,663,000	476,935	7,868,576
FY 2028-29	4,581,000	15,163,000	468,707	8,246,968
FY 2029-30	4,799,000	14,817,000	450,622	8,330,525
FY 2030-31	5,198,000	14,984,000	446,270	8,173,469
FY 2031-32	5,374,000	14,257,000	438,010	7,729,913
FY 2032-33	5,299,000	13,904,000	412,200	7,130,650

The figures in the Summary Table use the Hartman & Associates estimates as the lower end of the range and the Buck estimates as the higher end of the range and assume that all State Special Separation Allowances are paid from the General Fund.

Reemployment under the provisions of this bill may violate federal tax law, but that determination is outside the scope of this note. While federal law does permit retirees to receive a benefit while working, this is only allowed under certain circumstances and the bill does not appear to create the required circumstances. Buck also noted many ambiguities in the drafting of the bill that would need to be resolved prior to implementation.

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, 2021 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2021 unless otherwise noted, M = millions)		
	TSERS	LGERS
Active Members		
Count	300,310	132,235
General Fund Compensation	$11,960M	
Valuation Compensation (Total)	$16,633M	$7,550M
Average Age	46	44
Average Service	11.0	9.9
Inactive Members		
Count	198,642	93,473
Retired Members		
Count	238,652	79,318
Annual Benefits	$5,045M	$1,633M
Average Age	72	69
New Retirees During 2022	12,700	4,800

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)		
	TSERS	LGERS
Accrued Liability (AL)	$92,356M	$34,884M
Actuarial Value of Assets (AVA)	$83,139M	$31,643M
Market Value of Assets (MVA)	$87,966M	$33,460M
Unfunded Accrued Liability (AL - AVA)	$9,217M	$3,241M
Funded Status (AVA / AL)	90%	91%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%	12.85% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
Assumed Rate of Investment Return: 6.50%		
Cost Method: Entry Age Normal		
Amortization: 12 year, closed, flat dollar		
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019		

Benefit Provisions			
	TSERS	LGERS	Special Separation Allowance
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	0.85% x Service x Final Base Pay; Payable until age 62
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 55/5
Employee contribution (as % of pay)	6%	6%	0%

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.

Hartman & Associates assumed increases in retirement rates for LEOs when first eligible for unreduced retirement of 3 percentage points in TSERS and 15 percentage points in LGERS. Hartman & Associates also assumed that positions would be available for reemployment at the same pay level.

Buck assumed 100% of LEOs retire upon reaching unreduced retirement eligibility, and that 100% return to work under the provisions of the bill and remain employed as long as is implied by current retirement assumptions. This is intended to demonstrate the maximum possible impact of the proposed legislation.

The increased costs estimated by both actuaries are due to members accelerating their retirements. Both actuaries assumed that the Special Separation Allowance (SSA) would continue to LEOs who are rehired under the provisions of the bill. The bill does not specifically address the SSA. The State SSA statute allows the SSA to continue if the LEO returns in a position exempt from the NC Human Resources Act in an agency other than the agency from which the LEO retired. The local SSA statute allows the SSA to continue if the LEO returns in a public safety position in a capacity not requiring LGERS participation. It is unclear if returning under the provisions of the bill meets that definition or not.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Buck, "Bring Back Our Heroes (SB 113)", April 13, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 113: An Act Allowing Law Enforcement Officers to Receive Retirement Benefits and Subsequently Return to Service", April 6, 2023, 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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