NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: Teacher Licensure/Retired Educator Program.
Bill Number: Senate Bill 187 (First Edition)
Sponsor(s): Sen. Tom McInnis, Sen. Todd Johnson, and Sen. Lisa S. Barnes

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 187, V.1 ($ in thousands)

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
State Impact					
General Fund	-	No estimate available. See Actuarial Impact Summary.			
Highway Fund	-	No estimate available. See Actuarial Impact Summary.			
Other/Receipts	-	No estimate available. See Actuarial Impact Summary.			
TOTAL STATE EXPENDITURES	**-**	**No estimate available. See Actuarial Impact Summary.**			

ACTUARIAL IMPACT SUMMARY

Section 2 has a potential actuarial impact on a retirement system.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS)

Section 2: Allows TSERS retirees to serve as teachers or instructional support personnel under certain conditions. The section specifies the following:

1. The retiree must have retired on or before February 1, 2019 with an unreduced benefit.
2. The retiree must be reemployed by a local education agency (LEA) to serve in a school that, at any point since July 1, 2017, was either a Title I school or received a State school performance grade of D or F.
3. The retiree must serve as a licensed teacher or as licensed instructional support personnel.
4. The retiree would continue to receive his or her pension in addition to the salary for teaching.
5. The salary for teaching would be equal to the salary on the first step of the teacher salary schedule, except for STEM and special education teachers, school psychologists, speech pathologists, and audiologists who would be paid on the sixth step of the schedule. The retiree would not receive any State supplement or bonus, but would receive local supplements.
6. The teaching salary would not count against the retiree earnings limit in G.S. 135-3(8).

7. The contract between the retiree and the LEA could be for no more than one year.
8. The LEA hiring the retiree would be required to report to the Department of State Treasurer on the retiree's employment and earnings.
9. TSERS would receive neither employee nor employer contributions on the salary as a high-need retired teacher and the retiree would not earn any TSERS service credit for the period.
10. The retiree would be enrolled in the State Health Plan as an active employee and the LEA would pay the employer premium to the State Health Plan.
11. The retiree would be ineligible to elect into a position in which they accrue TSERS service.

The section expires on June 30, 2027. Previous laws allowing retirees to return as classroom teachers, for example Session Laws 1998-212, 2001-424, 2002-126, 2004-124, 2005-144, and 2007-145, contained expiration dates that were amended by subsequent law.

Neither Buck, the actuary for the retirement systems, nor Hartman & Associates, the actuary for the General Assembly, expect this section in its current form to affect retirement or termination rates in TSERS, and thus do not expect it to increase the accrued liability. However, if the February 1, 2019 date were changed to a later date, the section would likely increase retirement rates, resulting in increased costs to TSERS.

Both actuaries note that the amortization of unfunded accrued liability is being collected as a percentage of the active payroll. If a significant number of retirees are hired in place of contributing employees, this would shift the unfunded liability amortization to future years and to the non-LEA employing units or to LEAs that hired relatively few retirees. Buck estimates that the increase in contribution rate will be as follows, depending on the number of retirees hired as teachers:

Number per school	Total Number	Decrease in TSERS Active Payroll	Increase in Contribution Rate
0.25	625	$27,156,250	0.012%
0.50	1,250	$54,312,500	0.025%
1.00	2,500	$108,625,000	0.050%
2.50	6,250	$271,562,500	0.126%
5.00	12,500	$543,125,000	0.256%

The significant uncertainty in the number of retirees hired under these provisions is the reason that no estimate is available for later years in the Summary Table.

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
Active Members	
Count	300,310
General Fund Compensation	$11,960M
Valuation Compensation (Total)	$16,633M
Average Age	46
Average Service	11.0
Inactive Members	
Count	198,642
Retired Members	
Count	238,652
Annual Benefits	$5,045M
Average Age	72
New Retirees During 2022	12,700

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)	
	TSERS
Accrued Liability (AL)	$92,356M
Actuarial Value of Assets (AVA)	$83,139M
Market Value of Assets (MVA)	$87,966M
Unfunded Accrued Liability (AL - AVA)	$9,217M
Funded Status (AVA / AL)	90%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%
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
Formula	1.82% 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 the Fiscal Research Division.

Both actuaries also used information on the number of Title I and D/F schools. There are 1,749 schools across the state that are either a Title I school or received a D/F grade in the 2021-22 school year. Fiscal Research estimates that as many as 2,500 schools could meet the criteria in the bill, which includes meeting either condition at any point since July 1, 2017.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Buck, "Part II of House Bill 280 and Senate Bill 187 (Teacher Licensure/Retired Educator Program): Rehiring High-Need Teachers", March 14, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 187/House Bill 280 (Part II): Revive and Expand the Program to Allow Retired Educators to Return to Work in High-Need Schools", March 7, 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.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
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Signed copy located in the NCGA Principal Clerk's Offices