



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: DST Admin Changes.-AB
Bill Number: House Bill 201 (First Edition)
Sponsor(s): Rep. Carson Smith

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 201, V.1 (\$ in thousands)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
State Impact					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	-	-	-	-	-
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Disability Income Plan (DIP), Death Benefit Plans (DBP), and Contributory Death Benefit (CDB)

Part 1: Makes the CDB benefit payable to the deceased member's legal representative if no beneficiary exists rather than to a surviving spouse. Both Buck, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that this part will have no material impact on the contribution rates or liabilities of the CDB.

Part 2: Provides that for notifications made after 2023, DIP will not reimburse an employer for the second six months of short-term disability payments. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of DIP.

Part 3: Allows the Retirement Systems Division, rather than the Medical Board, to make certain eligibility decisions regarding short-term disability under DIP. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of DIP.

Part 4: Allows the first retirement payment to be made by direct deposit in TSERS, LGERS, LRS, and CJRS. This part further provides that the “lock-in” of the benefit option and survivor election occurs when the first payment becomes due and the payment has occurred rather than when the first check is cashed. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of TSERS, LGERS, LRS, or CJRS.

Part 5: Requires an application for extending short-term disability in DIP be made within 180 days of the latest ending date of short-term disability benefits, salary continuation, or workers’ compensation. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of DIP.

Part 6: Adds exclusive benefit language to the DBP trust fund, stating the assets of the fund shall only be used for the exclusive benefit of persons entitled to benefits under the DBP. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of the DBP.

Part 7: Provides that if the recipient of a survivor’s alternate benefit under TSERS, LGERS, or LRS dies before payments equal the amount of accumulated contributions, the remainder is paid to the recipient’s estate. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of TSERS, LGERS, or LRS.

Part 8: Provide an offset for worker’s compensation lump sum payments from the long-term disability benefits under DIP. Currently the DIP benefit is only offset for monthly worker’s compensation payments. Both actuaries estimate that this provision will produce savings for DIP but that the impact will not be material.

Part 9: Provides a safe harbor for the repayment of a benefit overpayment caused by administrative error of the Retirement Systems Division. A withholding of not less than 25% of the net retirement allowance until the amount has been repaid will be considered to meet the repayment requirements. Currently, 100% of the net retirement allowance is being withheld in many cases. Both actuaries estimate that this part will have no material impact on the contribution rates or liabilities of the affected systems.

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)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Active Members				
Count	300,310	132,235	569	170
General Fund Compensation	\$11,960M		\$87M	\$4M
Valuation Compensation (Total)	\$16,633M	\$7,550M	\$83M	\$4M
Average Age	46	44	54	59
Average Service	11.0	9.9	11.9	6.8
Inactive Members				
Count	198,642	93,473	57	113
Retired Members				
Count	238,652	79,318	792	290
Annual Benefits	\$5,045M	\$1,633M	\$52M	\$2M
Average Age	72	69	74	78
New Retirees During 2022	12,700	4,800	33	6

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$92,356M	\$34,884M	\$832M	\$30M
Actuarial Value of Assets (AVA)	\$83,139M	\$31,643M	\$703M	\$31M
Market Value of Assets (MVA)	\$87,966M	\$33,460M	\$744M	\$32M
Unfunded Accrued Liability (AL - AVA)	\$9,217M	\$3,241M	\$129M	(\$1M)
Funded Status (AVA / AL)	90%	91%	84%	102%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%	12.85% (non-LEO)	32.84%	18.61%
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%	3.25% - 4.75%	3.25%
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				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay

Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	6%	7%

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.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Buck, "House Bill 201 – DST Administrative Changes", March 10, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 201: DST Admin Changes.-AB", March 9, 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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 March 20, 2023



Signed copy located in the NCGA Principal Clerk's Offices