



# NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

## Legislative Actuarial Note - Retirement

**Short Title:** 25-Year Retirement for First Responders.  
**Bill Number:** House Bill 597 (First Edition)  
**Sponsor(s):** Rep. Clampitt, Rep. Riddell, Rep. Saine, and Rep. Cotham

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 597, 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>
<b>State Impact</b>					
General Fund	28,009	35,937	37,221	37,550	37,704
Highway Fund	634	655	676	698	721
Other/Receipts	12,136	12,531	12,938	13,358	13,793
<b>TOTAL STATE EXPENDITURES</b>	<b>40,780</b>	<b>49,122</b>	<b>50,835</b>	<b>51,607</b>	<b>52,218</b>
<b>Local Impact</b>					
Local Governments	120,539	141,733	146,275	147,728	148,245
<b>TOTAL LOCAL EXPENDITURES</b>	<b>120,539</b>	<b>141,733</b>	<b>146,275</b>	<b>147,728</b>	<b>148,245</b>

This impact reflects the estimate from Buck, which would be used in calculating the official actuarially determined employer contribution. See below for further details.

### ACTUARIAL IMPACT SUMMARY

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

House Bill 597(First Edition) allows law enforcement officers (LEOs), corrections officers, firefighters, and emergency medical services personnel (EMS personnel) in TSERS and LGERS to retire with unreduced benefits at any age with 25 years of service. The bill also allows law enforcement officers and corrections officers to qualify for the special separation allowance if they retire with 25 years of service and meet any other requirements. These changes would apply to those retiring on or after January 1, 2024. The following table summarizes the current and proposed requirements to qualify for retirement:

	<u>Current Law</u>	<u>HB 597</u>
Unreduced for LEOs	Age 55 w/ 5 years of service Any age w/ 30 years	Age 55 w/ 5 years of service Any age w/ 25 years
Reduced for LEOs	Age 50 w/ 15 years of service Any age w/ 25 years	Age 50 w/ 15 years of service
Unreduced for Firefighters and EMS Personnel	Age 65 w/ 5 years of service Age 60 w/ 25 years Any age w/ 30 years	Age 55 w/ 5 years of service Any age w/ 25 years
Reduced for Firefighters and EMS Personnel	Age 50 w/ 20 years of service Age 55 (LGERS) or 60 (TSERS) w/ 5 years	Age 50 w/ 15 years of service
Unreduced for Corrections Officers	Age 65 w/ 5 years of service Age 60 w/ 25 years Any age w/ 30 years	Age 55 w/ 5 years of service Any age w/ 25 years
Reduced for Corrections Officers	Age 50 w/ 20 years of service Age 60 w/ 5 years	Age 50 w/ 15 years of service

### Impact on TSERS

Buck, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have the following impacts on TSERS in FY 2023-24:

	Buck	Hartman & Associates
Increase in Accrued Liability	\$122,000,000	\$77,900,000
Increase in Required Contribution (as % of pay)	0.18%	0.10%
General Fund	\$21,528,000	\$11,960,000
Highway Fund	\$634,000	\$352,000
Receipt Funds	\$12,136,000	\$6,742,000
Total Annual Cost	\$34,299,000	\$19,055,000

### Impact on LGERS

The actuaries estimate that the bill will have the following impacts on LGERS in FY 2023-24:

	Buck	Hartman & Associates
Increase in Accrued Liability	\$486,000,000	\$480,000,000
Increase in Required Contribution (as % of pay)	1.15% non-LEO 1.67% LEO	1.17%
Total Annual Cost	\$104,486,000	\$98,635,000

These figures assume that the total accrued liability increase is amortized over total payroll.

Additional Law Enforcement Special Separation Allowance

The actuaries estimate that the bill will increase special separation allowance payments, including payments for corrections officers, by the following amounts:

Year Beginning	Buck		Hartman & Associates	
	State	Local	State	Local
2023	\$ 12,963,000	\$ 32,106,000	\$ 128,544	\$ 287,835
2024	14,455,000	35,598,000	4,012,239	7,053,634
2025	14,087,000	34,177,000	7,791,526	15,194,257
2026	13,622,000	31,264,000	8,414,013	18,375,930
2027	12,854,000	27,735,000	8,484,455	20,037,990
2028	12,466,000	24,332,000	8,318,900	19,859,882
2029	12,269,000	22,550,000	8,390,771	18,655,869
2030	12,019,000	21,969,000	8,693,988	17,140,649
2031	12,211,000	21,838,000	8,853,021	16,714,477
2032	12,502,000	22,732,000	9,144,939	16,959,816

The Summary Table at the top of this note assumes all State special separation allowances are paid from the General Fund and that both State and local allowances are funded on a pay-as-you go basis rather than in advance.

**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)		
	<u>TSERS</u>	<u>LGERS</u>
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			
	<u>TSERS</u>	<u>LGERS</u>	<u>LEO Separation Allowance</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	0.85% x Service x Base Pay
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 Payable until age 62
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 the Fiscal Research Division.

Hartman & Associates provided the following summary of the employees to whom the provisions of the bill would apply:

Membership Statistics (M = millions)				
<u>Occupation</u>	<u>State</u>		<u>Local</u>	
	<u>Count</u>	<u>Payroll</u>	<u>Count</u>	<u>Payroll</u>
Law Enforcement Officers	5,469	\$328.2M	21,833	\$1,266.9M
Corrections Officers	8,703	\$371.6M	0	\$0M
Firefighters	113	\$5.2M	7,989	\$466.0M
EMS Personnel (including Telecommunicators)	233	\$12.1M	7,067	\$388.0M
Total First Responders	14,518	\$717.1M	36,889	\$2,120.9M

Telecommunicators are not identified in the TSERS and LGERS valuation data but are included in the definition of EMS Personnel in the bill, so both actuaries used data from the U.S. Bureau of Labor Statistics and N.C. Department of Commerce on the number of telecommunicators in North Carolina to estimate the count and payroll for these employees.

The bill seems to amend the definition of “law enforcement officer” in TSERS to include many local employees, such as sheriff’s deputies, detention officers, and jailers. However, other provisions of the TSERS statutes would not allow these individuals to participate in TSERS because they do not work for the State. Both actuaries assumed that these individuals would not in fact participate in TSERS.

Both actuaries assumed that the provisions of the bill would result in higher retirement decrements at 25 to 29 years of service than assumed under current law.

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## **TECHNICAL CONSIDERATIONS**

N/A.

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## **DATA SOURCES**

Buck, “25-Year Retirement for First Responders (HB 597)”, April 18, 2023, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 597: An Act Allowing First Responders Who Are Members of the TSERS or the LGERS to Retire with Unreduced Benefits After Achieving Twenty-Five Years of Creditable Service”, April 14, 2023, original of which is on file in the General Assembly’s Fiscal Research Division.

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## **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.

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## **CONTACT INFORMATION**

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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## **ESTIMATE PREPARED BY**

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April 19, 2023



**Signed copy located in the NCGA Principal Clerk's Offices**