



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

## Legislative Retirement Note

**Short Title:** Charlotte Firefighters' Retirement Changes.  
**Bill Number:** House Bill 565 (Second Edition)  
**Sponsor(s):** Representative Clampitt

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 565, V.2 (\$ in thousands)

	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>
<b>State Impact</b>					
General Fund Impact	- to -	- to -	- to -	- to -	- to -
Highway Fund Impact	- to -	- to -	- to -	- to -	- to -
Other/Receipts Impact	- to -	- to -	- to -	- to -	- to -
<b>NET STATE IMPACT</b>	<b>- to -</b>	<b>- to -</b>	<b>- to -</b>	<b>- to -</b>	<b>- to -</b>
<b>Local Impact</b>					
City of Charlotte	(434) to 628	(447) to 647	(461) to 666	(474) to 686	(489) to 707
<b>NET LOCAL IMPACT</b>	<b>(434) to 628</b>	<b>(447) to 647</b>	<b>(461) to 666</b>	<b>(474) to 686</b>	<b>(489) to 707</b>

The impact shown above is the change in the actuarially determined employer contribution (ADEC). Because the City contributes an amount different from the ADEC, this would not equal the fiscal impact on the City.

### ACTUARIAL IMPACT SUMMARY

Sections 1 and 2 have actuarial impacts.

Systems affected: Charlotte Firefighters' Retirement System (CFRS)

Section 1: Changes the base unit for unused leave included in final average salary at retirement from days to hours and specifies separate limits on converted leave for members with a 52-hour average workweek and a 40-hour workweek. This section also provides that the annual compensation of a member taken into account for determining retirement benefits is limited to \$160,000 for plan years beginning on or after July 1, 2017. This replaces the current compensation limit under Section 401(a)(17) of the Internal Revenue Code, which is \$275,000 for 2018.

Hartman & Associates, the actuary for the General Assembly, estimates that the changes in Section 1 regarding the provision for determining unused leave would increase the accrued liability of

CFRS by \$5.3 million and increase the actuarially determined employer contribution (ADEC) by 0.94% of pay. Cavanaugh Macdonald, the actuary for the CFRS, estimates that this change would increase the ADEC by 0.44% of payroll.

Hartman & Associates estimates that the new compensation limit in Section 1 would not be expected to have a material impact on CFRS. Cavanaugh Macdonald estimates that the new compensation limit would decrease the ADEC by 1.02% of payroll.

Section 2: Provides that the contribution by the City of Charlotte to the CFRS, currently 12.65% of each member’s compensation, shall also be made for any vacant positions based on the approved rates of pay for those positions.

Hartman & Associates estimates that the provisions of Section 2 would increase contributions to CFRS by approximately 1% of the current employer contribution.

**ASSUMPTIONS AND METHODOLOGY**

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Hartman & Associates relied on information from the City of Charlotte that reporting accumulated leave in hours rather than days would increase the amount of leave reported by 15.3% for 52-hour employees. For purposes of the note, Hartman & Associates assumed the full value of additional reported leave would be included in determining final average salary for these employees.

The City also stated that only one member has compensation above \$160,000 and that the Fire Department currently has 16 vacant positions, which is typical for the Department.

Significant membership and financial statistics, assumptions, and methods used by the CFRS actuary in preparing the July 1, 2016 valuation are shown in the following tables:

Membership Statistics (as of 7/1/2016 unless otherwise noted, M = millions)	
Active Members	
Count	1,030
Valuation Compensation	\$67M
Average Age	40
Average Service	13.3
Inactive Members	
Count	14
Retired Members	
Count	647
Annual Benefits	\$29M

Financial Statistics (as of 7/1/2016 unless otherwise noted, M = millions)	
Accrued Liability (AL)	\$565M
Actuarial Value of Assets (AVA)	\$491M
Market Value of Assets (MVA)	\$475M
Unfunded Accrued Liability (AL - AVA)	\$74M
Funded Status (AVA / AL)	87%
Actuarially Determined Employer Contribution for FY 2017-18 (as % of pay)	17.74%
Assumed Rate of Investment Return	7.50%
Salary Increase Assumption (includes 3.00% inflation and productivity)	3.75% - 9.00%
Mortality	RP-2000
Cost Method	Entry Age Normal
Amortization	30 year open, level % of pay

Benefit Provisions	
Formula	2.6% x Service x 2 Year Avg Pay
Unreduced retirement age/service	Any/30; 50/25; 60/5
Employee contribution (as % of pay)	12.65%
Social Security	Members do not participate in Social Security

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

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N/A.

## DATA SOURCES

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Cavanaugh Macdonald, "House Bill 565", August 26, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 565 Second Edition: An Act to Amend the Law Establishing the Charlotte Firefighters' Retirement System", June 28, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

## LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

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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**

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

**ESTIMATE PREPARED BY**

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**ESTIMATE APPROVED BY**

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Fiscal Research Division  
May 17, 2018

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

