



# NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

## Legislative Actuarial Note - Retirement

**Short Title:** Retirement Service Purchase Rewrite Part III.  
**Bill Number:** House Bill 989 (First Edition)  
**Sponsor(s):** Rep. Carson Smith

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 989, V.1 (\$ in thousands)

	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>
<b>State Impact</b>					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	-	-	-	-	-
<b>Local Impact</b>					
Local Governments	-	-	-	-	-
<b>TOTAL LOCAL EXPENDITURES</b>	-	-	-	-	-

### 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), Registers of Deeds' Supplemental Pension Fund (RDSPF), Optional Retirement Program (ORP)

**Part 1:** Reorganizes and standardizes statutes governing the purchase of service in TSERS. Most requirements and limitations on service purchase would remain the same, with the following exceptions:

- a. Purchase of local waiting period service would be limited to 5 years and would require the member to be in service.
- b. Purchase of service at a non-participating charter school would require an administrative fee.
- c. Purchase of part-time service would be limited to 5 years.

- d. Purchase of military service for members who completed 10 years of service and whose membership began on or before July 1, 1981, could not be made after 2038.
- e. Purchase of service for leaves of absence or interrupted service for educational purposes prior to July 1, 1981, could not be made after 2038.

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 funded status of TSERS.

Part 2: Reorganizes and standardizes statutes governing the purchase of service in LGERS. Most requirements and limitations on service purchase would remain the same, with the following exceptions:

- a. Purchase of part-time service would be limited to 5 years.
- b. Purchase of military service for members who completed 10 years of service and whose membership began on or before July 1, 1981, could not be made after 2038.
- c. Purchase of service for leaves of absence or interrupted service for educational purposes prior to July 1, 1981, could not be made after 2038.

Both actuaries estimate that this part will have no material impact on the contribution rates or funded status of LGERS or RDSPF.

Part 3: Reorganizes and standardizes statutes governing the purchase of service in CJRS. Some requirements and limitations on service purchase would remain the same, with the following exceptions:

- a. Service could be purchased for extended illness, involuntary furlough, local waiting period, service with a non-participating charter school, parental leave, part-time service, temporary service, and withdrawn ORP service.
- b. Service purchases would be limited to 5 years and would require the member to be in service.
- c. Service could be purchased for omitted membership service under conditions similar to those in TSERS.
- d. The employer would be allowed to pay for service purchases, which is currently the case for a few types of service purchase.
- e. An administrative fee would be imposed, which is currently the case for one type of service purchase.

Both actuaries estimate that this part will have no material impact on the contribution rates or funded status of CJRS.

Part 4: Reorganizes and standardizes statutes governing the purchase of service in LRS. Most requirements and limitations on service purchase would remain the same, with the following exceptions:



- a. Purchase of withdrawn service would be limited to 5 years and would require the member to be in service.
- b. Purchase of military service would require an administrative fee, would be calculated as full actuarial cost, and could be paid for by the employer.

Both actuaries estimate that this part will have no material impact on the contribution rates or funded status of LRS.

G.S. 120-114(g) requires actuarial notes on bills modifying service purchases to contain an estimate of the impact measured using Treasury Bond yields and cost-of-living adjustment and salary increase assumptions consistent with those yields. Both actuaries also estimate that the bill will have no material impact on the contribution rates or funded status of TSERS, LGERS, CJRS, LRS, or RDSPF using these alternative assumptions.

### **ASSUMPTIONS AND METHODOLOGY**

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The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2022 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2022 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
<b>Active Members</b>				
Count	297,802	135,706	581	170
General Fund Compensation	\$12,657M		\$101M	\$4M
Valuation Compensation (Total)	\$17,601M	\$8,292M	\$88M	\$4M
Average Age	46	44	54	60
Average Service	10.9	9.6	11.3	7.4
<b>Inactive Members</b>				
Count	218,956	101,818	60	108
<b>Retired Members</b>				
Count	246,374	82,466	816	288
Annual Benefits	\$5,259M	\$1,729M	\$55M	\$2M
Average Age	72	69	74	78
New Retirees During 2023	11,416	4,360	41	17

Financial Statistics (as of 12/31/2022 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$96,675M	\$37,090M	\$877M	\$30M
Actuarial Value of Assets (AVA)	\$85,407M	\$32,708M	\$721M	\$31M
Market Value of Assets (MVA)	\$77,445M	\$29,655M	\$654M	\$28M
Unfunded Accrued Liability (AL - AVA)	\$11,268M	\$4,382M	\$155M	(\$0M)
Funded Status (AVA / AL)	88%	88%	82%	101%
Required Employer Contribution for FY 2024-25 (as % of pay)	16.79%	13.60% (non-LEO)	35.96%	19.32%
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%

For the measurement required in G.S. 120-114(g), both actuaries assumed a 3.97% 30-year Treasury Bond yield. Hartman & Associates used a cost-of-living adjustment assumption of 0.5% and a 2% inflation assumption.

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 989 – Retirement Service Purchase Rewrite Part III", May 13, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 989: Retirement Service Purchase Rewrite Part III", May 16, 2024, 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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David Vanderweide

**ESTIMATE APPROVED BY**

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Brian Matteson, Director of Fiscal Research  
Fiscal Research Division  
May 17, 2024



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