NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Retirement Note

Short Title: 2019 Appropriations Act.
Bill Number: House Bill 966 (Fifth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 966, V. 5 ($ in thousands)

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
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 38.25 has a potential actuarial impact on a retirement system.

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

Section 38.25: Allows TSERS retirees to serve as classroom teachers under certain conditions. The section specifies the following:

1. The retiree must have retired on or before February 1, 2019 with an unreduced benefit and must have retired at least six months prior to reemployment as a teacher.
2. The retiree must be reemployed by a local education agency (LEA) to teach in a school that is either a Title I school or received a State school performance grade of D or F.
3. The retiree would continue to receive his or her pension in addition to the salary for teaching.
4. 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 who would be paid on the sixth step of the schedule. The teacher would not receive any State supplement or bonus, but would receive local supplements.
5. The teaching salary would not count against the retiree earnings limit in G.S. 135-3(8).
6. The LEA hiring the teacher would be required to report to the Department of State Treasurer on the teacher's employment and earnings.
7. TSERS would receive neither employee nor employer contributions on the teaching salary and the retiree would not earn any TSERS service credit for the period.

8. 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.

The section expires on June 30, 2021 and is repealed if the Internal Revenue Service determines that the provisions jeopardize the tax status of TSERS. 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.

Both Cavanaugh Macdonald, the actuary for the retirement systems, and Hartman & Associates, the actuary for the General Assembly, state that in its current form this section is not expected to affect retirement or termination rates in TSERS, and thus is not expected 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. Cavanaugh Macdonald 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	500	$20,925,000	0.013%
0.50	1,000	$41,850,000	0.025%
1.00	2,000	$83,700,000	0.050%
2.50	5,000	$209,250,000	0.125%
5.00	10,000	$418,500,000	0.250%

The significant uncertainty in the number of retirees hired under these provisions is the reason that no estimate is available in the Summary Table after FY 2019-20.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to contribute the amount recommended by the actuary to properly fund existing benefits.

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, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)	
	TSERS
Active Members	
Count	304,554
General Fund Compensation	$11,046M
Valuation Compensation (Total)	$15,059M
Average Age	45
Average Service	10.8
Inactive Members	
Count	160,087
Retired Members	
Count	215,008
Annual Benefits	$4,521M
Average Age	71
New Retirees During 2018	11,200

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)	
	TSERS
Accrued Liability (AL)	$79,209M
Actuarial Value of Assets (AVA)	$69,568M
Market Value of Assets (MVA)	$70,608M
Unfunded Accrued Liability (AL - AVA)	$9,641M
Funded Status (AVA / AL)	88%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%
Assumed Rate of Investment Return: 7.00%	
Cost Method: Entry Age Normal	
Amortization: 12 year, closed, flat dollar	
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015	

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 Title I and D/F schools. There are 1,826 Title I schools in LEAs across the state, using the 2018-19 list. In addition, there are 18 D/F schools using the 2017-18 school performance grades that are not Title I schools.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Rehiring High-Need Teachers - Senate Bill 399", April 16, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 399: An Act to Allow Retired Teachers to return to Work in High-Need Schools Without Adversely Impacting the Retired Teachers' Benefits", April 4, 2019, 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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