



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: 2023 Appropriations Act.
Bill Number: House Bill 259 (Second Edition)
Sponsor(s): Rep. Lambeth, Rep. Saine, and Rep. Arp

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 259, V.2 (\$ 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	609,224	609,224	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	609,224	609,224	-	-	-

ACTUARIAL IMPACT SUMMARY

Sections 16.14 and 39.27 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS)

Section 16.14: Raises the mandatory retirement age for appellate judges from age 72 to age 76. We have estimated the actuarial impact of this section using the impact of 2021 House Bill 56, which would have increased the retirement age to 75 for all judges. Cavanaugh Macdonald, the actuary for the retirement systems at the time, estimated that bill would reduce the actuarially determined employer contribution (ADEC) of CJRS by 0.98% of pay. Hartman & Associates, the actuary for the General Assembly, estimated that bill would reduce the ADEC of CJRS by 0.69% of pay. Appellate judges make up only 5% of the judges in the Judicial Department, so this section is estimated to cause a much smaller reduction than 2021 House Bill 56 in the ADEC of CJRS.

Section 39.27: Grants a cost-of-living adjustment (COLA) of one percent (1%) to retirees in TSERS, CJRS, and LRS, effective July 1, 2023, and an additional one percent (1%), effective July 1, 2024. These COLAs increase the ongoing monthly benefit for beneficiaries in those Systems.

The Second Edition pays for these COLAs by reserving funds in each fiscal year of the biennium to the Retiree Benefit Enhancements Reserve to be used to make direct contributions to the Systems over just a single year after the effective date of the COLA being funded. If funded with direct

contributions over one year, rather than an increase in the employer contribution rate, Buck, the current actuary for the retirement systems, and Hartman & Associates estimate that a 1% COLA requires the following direct contributions:

	<u>Buck</u>	<u>Hartman & Associates</u>
TSERS	\$602,377,920	\$538,228,825
CJRS	6,612,036	5,948,262
LRS	<u>234,256</u>	<u>208,486</u>
Total	\$609,224,212	\$544,385,573

These estimates were developed for a COLA effective July 1, 2023 based on the actuarial valuations as of December 31, 2021. The impact of a COLA effective July 1, 2024 could be different based on the valuation results as of December 31, 2022.

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2024-25 because the additional contributions during each fiscal year are estimated to equal the additional accrued liability due to the COLA.

The amortization method adopted by the TSERS Board of Trustees amortizes the additional accrued liability due to benefit enhancements over 12 years. The Second Edition essentially amortizes the additional liability over one year rather than 12. For reference, Buck estimates that each 1% COLA would have the following recurring annual cost under the method adopted by the Board of Trustees:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.41%	0.89%	0.70%
General Fund	\$49,035,844	\$772,298	\$25,340
Highway Fund	\$1,445,164	\$0	\$0
Receipt Funds	<u>\$27,643,774</u>	<u>\$0</u>	<u>\$0</u>
Total Annual Cost	\$78,124,782	\$772,298	\$25,340

Hartman & Associates estimates that each 1% COLA would have the following recurring annual cost under the method adopted by the Board of Trustees:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll	0.40%	0.88%	0.68%
General Fund	\$47,839,848	\$763,620	\$24,616
Highway Fund	\$1,409,616	\$0	\$0
Receipt Funds	<u>\$26,969,536</u>	<u>\$0</u>	<u>\$0</u>
Total Annual Cost	\$76,219,300	\$763,620	\$24,616

Appropriations

The Second Edition reserves and appropriates funds and sets contribution rates sufficient to cover the increased cost of Section 39.27 and 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, 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>CIRS</u>	<u>LRS</u>
Active Members			
Count	300,310	569	170
General Fund Compensation	\$11,960M	\$87M	\$4M
Valuation Compensation (Total)	\$16,633M	\$83M	\$4M
Average Age	46	54	59
Average Service	11.0	11.9	6.8
Inactive Members			
Count	198,642	57	113
Retired Members			
Count	238,652	792	290
Annual Benefits	\$5,045M	\$52M	\$2M
Average Age	72	74	78
New Retirees During 2022	12,700	33	6

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)			
	<u>TSERS</u>	<u>CIRS</u>	<u>LRS</u>
Accrued Liability (AL)	\$92,356M	\$832M	\$30M
Actuarial Value of Assets (AVA)	\$83,139M	\$703M	\$31M
Market Value of Assets (MVA)	\$87,966M	\$744M	\$32M
Unfunded Accrued Liability (AL - AVA)	\$9,217M	\$129M	(\$1M)
Funded Status (AVA / AL)	90%	84%	102%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%	32.84%	18.61%
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	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>CJRS</u>	<u>LRS</u>
Formula	1.82% 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	50/24; 65/5	65/5
Employee contribution (as % of pay)	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, "Cost of Living Adjustments for State, Local, Judicial and Legislative Retirement Systems", March 14, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems", February 24, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Cavanaugh Macdonald Consulting, LLC, "Actuarial Impact of Raising the Judicial retirement Age from 72 to 75 – HB 56", March 1, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 56: An Act Increasing the Mandatory Retirement Age for Justices and Judges of the General Court of Justice and for Magistrates", February 23, 2021, 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.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
April 3, 2023



Signed copy located in the NCGA Principal Clerk's Offices