



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Actuarial Note - Retirement

Short Title: 2025 Appropriations Act.
Bill Number: Senate Bill 257 (Fourth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 257, V.4 (\$ in thousands)									
	FY 2025-26		FY 2026-27		FY 2027-28		FY 2028-29		FY 2029-30
State Impact									
General Fund Impact	40,614	to 41,023	80,838	to 81,946	(1,927)	to (226)	(2,425)	to (215)	(2,656) to (140)
Highway Fund Impact	2,093	to 2,093	4,186	to 4,186	-	to -	-	to -	- to -
Other/Receipts Impact	18,995	to 18,995	37,991	to 37,991	-	to -	-	to -	- to -
NET STATE IMPACT	61,702	to 62,111	123,015	to 124,123	(1,927)	to (226)	(2,425)	to (215)	(2,656) to (140)
Local Impact									
Local Governments	(16,958)	to (28)	(18,295)	to (248)	(19,842)	to (507)	(21,312)	to (680)	(23,025) to (649)
NET LOCAL IMPACT	(16,958)	to (28)	(18,295)	to (248)	(19,842)	to (507)	(21,312)	to (680)	(23,025) to (649)

ACTUARIAL IMPACT SUMMARY

Sections 41.22A, 41.23, 41.24, and 41.25 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), Local Governmental Employees' Retirement System (LGERS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), National Guard Pension Fund (NGPF), State and local law enforcement special separation allowances

Section 41.22A: Grants a one-time cost-of-living supplement of one percent (1%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2025. The supplement will be paid in a lump sum on or before October 31, 2025. This section also grants an additional one-time cost-of-living supplement of two percent (2%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2026. The supplement will be paid in a lump sum on or before October 31, 2026.



Gallagher, the actuary for the Retirement System, and Aon, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs in both FY 2025-26 and FY 2026-27:

<u>System</u>	<u>Gallagher</u>		<u>Aon</u>	
	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
TSERS	0.30%	0.60%	0.30%	0.60%
CJRS	0.63%	1.26%	0.62%	1.24%
LRS	0.64%	1.28%	0.62%	1.24%

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2026-27 because the additional contributions during each fiscal year are estimated to offset the additional benefits paid out.

Section 41.23: Increases the FRSWPF retirement benefit from \$175 per month to \$180 per month, effective January 1, 2026.

Gallagher, the actuary for the retirement systems, and Hartman & Associates, the former actuary for the General Assembly, estimate that this section will have the following impact on the FRSWPF:

	<u>Gallagher</u>	<u>Hartman & Associates</u>
Increase in accrued liability	\$14,740,680	\$14,800,000
Increase in normal cost	\$194,093	\$201,764

The Hartman & Associates estimates above are based on the December 31, 2022 valuation and assume a July 1, 2024 effective date, but should be roughly accurate for this bill.

Under the funding policy adopted by the Board of Trustees in April 2021, the Actuarially Determined Employer Contribution (ADEC) includes an adjustment for any benefit improvements at least equal to the Benefit Improvement Funding Requirement (BIFR), which is calculated for the improvement in this section as follows using the Gallagher estimates above:

(1) Full Actuarial Cost of Proposed Improvement	\$14,934,773
(2) Accrued Liability as of Last Valuation	523,078,443
(3) Actuarial Value of Assets as of Last Valuation	541,506,390
(4) Underlying ADEC for FY 2025-26	1,843,962
(5) Policy Contribution without Increase for FY 2025-26	20,752,208
(6) Total Adjustment (2) – (3) + (4) – (5)	(37,336,193)
BIFR: (1) + (6), not less than \$0	0

While the increase in contribution required by the improvement is \$0, the use of surplus funding has an opportunity cost because the surplus could instead be used for other purposes.

Section 41.24: Increases the NGPF monthly retirement benefit as follows, effective January 1, 2026:

	<u>Current Law</u>	<u>Section 41.24</u>
With 20 years of service	\$105	\$108
Each additional year of service	\$10.50	\$10.80
Maximum with 30 years of service	\$210	\$216

The actuaries estimate that this section will have the following impact on the NGPF:

	<u>Gallagher</u>	<u>Hartman & Associates</u>
Increase in accrued liability	\$4,334,682	\$4,092,930
Increase in normal cost	\$6,057	\$7,027

The Hartman & Associates estimates above are based on the December 31, 2022 valuation and assume a July 1, 2024 effective date, but should be roughly accurate for this bill.

Under the funding policy adopted by the Board of Trustees in April 2021 and amended in January 2024, the Actuarially Determined Employer Contribution (ADEC) includes an adjustment for any benefit improvements at least equal to the Benefit Improvement Funding Requirement (BIFR), which is calculated for the improvement in this section as follows using the Gallagher estimates above:

(1) Full Actuarial Cost of Proposed Improvement	\$4,340,739
(2) Accrued Liability as of Last Valuation	151,713,820
(3) Actuarial Value of Assets as of Last Valuation	188,339,728
(4) Underlying ADEC for FY 2025-26	0
(5) Policy Contribution without Increase for FY 2025-26	1,110,318
(6) Total Adjustment (2) - (3) + (4) - (5)	(37,736,226)
BIFR: (1) + (6), not less than \$0	0

While the increase in contribution required by the improvement is \$0, the use of surplus funding has an opportunity cost because the surplus could instead be used for other purposes.

Section 41.25: Creates an alternative special separation allowance calculation for both State and local law enforcement officers. Officers who retire before age 62 with at least 30 years of service would be able to choose between the existing allowance and the new alternative allowance. The following table compares the two choices:



	Special Separation Allowance in Existing Law	New Alternative Special Separation Allowance
Multiplier	0.85%	0.85%
Service	Service at retirement	30
Compensation	Base rate at retirement	Base rate at 30 years of service
Payment Period	Until age 62	62 minus age when officer reaches 30 years of service. For example, if an officer reaches 30 years of service at age 52, but retires at age 57, payments will continue until age 67 (57 plus 62 minus 52)

The annual benefit amount is equal to multiplier x service x compensation. The alternative allowance will be paid for a longer period of time, but will, in almost all cases, provide a lower annual benefit.

Gallagher estimates that the bill will increase separation allowance payments by the following amounts (numbers in parentheses represent a decrease in payments):

Year	State		Local	
	Current retirement assumptions	Alternative retirement assumptions	Current retirement assumptions	Alternative retirement assumptions
2025	(73,000)	(425,000)	(117,000)	(1,368,000)
2026	(180,000)	(1,240,000)	(310,000)	(4,319,000)
2027	(226,000)	(1,927,000)	(507,000)	(7,235,000)
2028	(215,000)	(2,425,000)	(680,000)	(9,448,000)
2029	(140,000)	(2,656,000)	(649,000)	(10,696,000)
2030	(75,000)	(2,612,000)	(613,000)	(11,052,000)
2031	(30,000)	(2,462,000)	(398,000)	(10,479,000)
2032	(31,000)	(2,235,000)	(20,000)	(9,312,000)
2033	134,000	(1,565,000)	589,000	(7,450,000)
2034	327,000	(925,000)	1,577,000	(5,010,000)
2035	453,000	(350,000)	2,241,000	(3,285,000)
2036	270,000	(186,000)	2,422,000	(2,195,000)
2037	202,000	(189,000)	2,756,000	(559,000)
2038	299,000	191,000	2,866,000	553,000
2039	293,000	579,000	2,286,000	649,000

The alternative retirement assumptions reduce retirement rates prior to age 62 by 50% for those with 29 to 31 years of service.

Gallagher estimates that the total present value of State separation allowance payments would increase by \$4 million under current retirement assumptions and decrease by \$7 million under the alternative retirement assumptions. Gallagher estimates that the total present value of local separation allowance payments would increase by \$30 million under current retirement

assumptions and decrease by \$26 million under the alternative retirement assumptions. All of these estimates assume a 3.93% discount rate.

Gallagher noted that a change in retirement rates could affect costs associated with TSERS and LGERS, but did not provide an estimate of that impact.

Hartman & Associates estimated that a similar bill (House Bill 810 from the 2023 Session) would increase separation allowance payments by the following amounts:

FY ending	State		Local	
	No change in retirement rates	10% reduction in retirement rates	No change in retirement rates	10% reduction in retirement rates
2024	(15,061)	(41,168)	(26,355)	(109,491)
2025	(123,808)	(285,982)	(232,986)	(850,084)
2026	(264,878)	(600,505)	(540,453)	(1,771,405)
2027	(419,685)	(777,471)	(919,173)	(2,602,611)
2028	(534,748)	(896,986)	(1,562,335)	(3,644,033)
2029	(696,291)	(1,057,721)	(2,487,388)	(4,885,004)
2030	(883,454)	(1,273,249)	(3,999,676)	(6,589,774)
2031	(1,049,346)	(1,429,902)	(4,936,861)	(7,598,618)
2032	(1,261,536)	(1,642,147)	(5,168,454)	(7,730,042)
2033	(1,250,824)	(1,538,496)	(4,418,309)	(6,733,651)
2034	(1,036,639)	(1,273,380)	(3,927,768)	(5,996,881)
2035	(909,886)	(1,117,722)	(3,439,994)	(5,422,498)
2040	(323,046)	(546,390)	(96,656)	(1,974,897)
2045	496,208	154,156	2,494,138	431,270
2050	1,177,666	770,757	5,864,728	3,320,638
2055	2,874,786	2,834,433	11,205,971	10,055,417

Hartman & Associates estimates that if retirement rates are reduced by 10%, then the TSERS actuarially determined employer contribution (ADEC) will remain the same and the LGERS ADEC for law enforcement officers will decrease by 1.09% of pay, assuming the full impact is reflected in the law enforcement rate and the rate for other employees remains the same.

The table at the top of this note reflects the impact of Section 41.25 only, because the impact of the other sections is \$0. The lower end of the range for Local Governments reflects the 1.09% decrease in the LGERS ADEC for law enforcement officers estimated by Hartman & Associates. The ranges otherwise reflect the lowest and highest estimates of the change in separation allowance payments across the two actuaries, with all estimates brought forward in time with a payroll growth assumption of 3.25%.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of these sections 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, 2023 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2023 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>	<u>NGPF</u>
Active Members				
Count	299,037	141,269	25,621	5,336
General Fund Compensation	\$13,450M		Not applicable	Not applicable
Valuation Compensation (Total)	\$18,382M	\$9,184M	Not applicable	Not applicable
Average Age	46	43	40	38
Average Service	10.8	9.3	11.1	15.1
Inactive Members				
Count	230,130	108,697	18,863	2,500
Retired Members				
Count	252,036	85,027	15,263	4,825
Annual Benefits	\$5,412M	\$1,818M	\$31M	\$9M
Average Age	72	70	69	73
New Retirees During 2024	11,336	4,295	634	173

Financial Statistics (as of 12/31/2023 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>FRSWPF</u>	<u>NGPF</u>
Accrued Liability (AL)	\$99,810M	\$39,519M	\$523M	\$152M
Actuarial Value of Assets (AVA)	\$88,619M	\$34,328M	\$542M	\$188M
Market Value of Assets (MVA)	\$83,643M	\$32,437M	\$511M	\$178M
Unfunded Accrued Liability (AL - AVA)	\$11,191M	\$5,191M	(\$18M)	(\$37M)
Funded Status (AVA / AL)	89%	87%	104%	124%
Required Employer Contribution for FY 2025-26	17.14% of pay	14.35% of pay (non-LEO)	\$21M	\$1M
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%	Not applicable	Not applicable
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>FRSWPF</u>	<u>NGPF</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	\$175/month	\$105 + \$10.50/year over 20 to a maximum of \$210
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	55/20	60/20
Employee contribution (as % of pay)	6%	6%	\$15/month	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.

The State law enforcement special separation allowance is not funded in advance through a benefit trust. Funding of the local law enforcement special separation allowance differs among local employers.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Gallagher, "Teachers' and State Employees' Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2023", October 16, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Gallagher, "Consolidated Judicial Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2023", October 16, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Gallagher, "Legislative Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2023", October 16, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Aon, "One-Time Retiree Supplement for Select Retirement Systems", March 28, 2025, original of which is on file in the General Assembly's Fiscal Research Division.

Gallagher, "North Carolina Firefighters' and Rescue Squad Workers' Pension Fund; Report on the Actuarial Valuation Prepared as of December 31, 2023", October 16, 2024, original of which is on file in the General Assembly's Fiscal Research Division.



Hartman & Associates, LLC, "Increase Monthly Benefit for Members of the FRSW Pension Fund", May 15, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Gallagher, "North Carolina National Guard Pension Fund; Report on the Actuarial Valuation Prepared as of December 31, 2023", October 16, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Increase Benefits for Members of the NCNG Pension Fund", May 15, 2024, original of which is on file in the General Assembly's Fiscal Research Division.

Gallagher, "LEO Special Separation Allowance Options (HB 50)", February 25, 2025, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 810: Alternative LEO Special Separation Allowance", April 25, 2023, 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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May 20, 2025



Signed copy located in the NCGA Principal Clerk's Offices