



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Increase In-Service Death Benefits/LRS.
Bill Number: House Bill 86 (Second Edition)
Sponsor(s): Representatives Howard, Moore, Reives, and Carney

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 86, V. 2 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund	17	17	17	17	17
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
TOTAL STATE EXPENDITURES	17	17	17	17	17

ACTUARIAL IMPACT SUMMARY

Systems Affected: Legislative Retirement System (LRS) and Teachers' and State Employees' Retirement System Death Benefit Plan (DBP)

House Bill 86 (Second Edition) increases the death benefit for legislators who die in service from the legislator's highest annual salary capped at \$15,000 to a fixed benefit of \$50,000 for deaths occurring on or after January 1, 2020. The bill also clarifies that the benefit will be paid from the DBP.

The death benefit for legislators is currently paid from the DBP and is included in the calculation of the liabilities and costs for the DBP, although the State currently makes no contribution to the DBP specific to the payroll of legislators. Cavanaugh Macdonald, the actuary for the retirement systems, estimates the following impact of adding a contribution rate on the payroll of legislators and enacting the increase in the benefit amount contained in the bill:

Change	% of Payroll	General Fund Appropriation
Add contribution to DBP for existing death benefit	0.20%	\$7,240
Additional cost of increased death benefit in DBP	<u>0.46%</u>	<u>\$16,652</u>
Total contribution with increased death benefit	0.66%	\$23,892

The General Fund appropriations in the bill reflect the total impact shown above.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will have an annual cost to the State of \$36,000 and a one-time cost of \$72,000 for two death benefits paid retroactively. Hartman & Associates also estimates that the contribution rate for legislators to the DBP would need to be set at 1.38% of payroll to cover the full cost of the revised benefit.

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, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)		
	DBP	LRS
Active Members		
Count	305,962	170
General Fund Compensation	\$11,170M (2020 session)	\$4M
Valuation Compensation (Total)	\$14,886M	\$4M
Average Age	46	59
Average Service	10.8	6.5
Inactive Members		
Count	5,774	110
Retired Members		
Count	Not applicable	294
Annual Benefits	Not applicable	\$2M
Average Age	Not applicable	78
New Retirees During 2020	Not applicable	5

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)		
	DBP	LRS
Present Value of Future Benefits	\$170M	\$37M
Present Value of Future Contributions/Normal Costs	\$257M	\$6M
Market Value of Assets	\$59M	\$29M
Required Employer Contribution for FY 2021-22 (as % of pay)	0.16%	27.15%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	5.50%
Assumed Rate of Investment Return:	3.75%	7.00%
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015		

Benefit Provisions		
	<u>DBP</u>	<u>LRS</u>
Formula	Annual salary up to \$15,000 for legislators	4.02% x Service x Highest Pay
Unreduced retirement age/service	Not applicable	65/5
Employee contribution (as % of pay)	0%	7%

Hartman and Associates also relied on information that there were 16 qualifying deaths of serving legislators for the years 2006 through 2020.

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

Cavanaugh Macdonald Consulting, LLC, "Changes to In-Service Death Benefit for Legislators", March 1, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 86: Increase In-Service Death Benefit/LRS", 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.

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