



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: 2024 Appropriations Act.
Bill Number: House Bill 263 (Second Edition)
Sponsor(s): Rep. Arp, Rep. Saine, and Rep. Lambeth

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 263, V.2 (\$ 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> |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| State Impact | | | | | |
| General Fund | 79,808 | - | - | - | - |
| Highway Fund | 2,294 | - | - | - | - |
| Other/Receipts | 40,757 | - | - | - | - |
| TOTAL STATE EXPENDITURES | 122,859 | - | - | - | - |

ACTUARIAL IMPACT SUMMARY

Sections 39.19, 39.20, and 39.21 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), National Guard Pension Fund (NGPF), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)

Section 39.19: Grants a one-time cost-of-living supplement of two percent (2.0%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2024. The supplement will be paid in a lump sum on or before October 31, 2024.

Buck, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs in FY 2024-25:

| <u>System</u> | <u>Buck</u> | <u>Hartman & Associates</u> |
|---------------|--------------|---------------------------------|
| TSERS | 0.62% of pay | 0.62% of pay |
| CJRS | 1.28% of pay | 1.28% of pay |
| LRS | 1.22% of pay | 1.22% of pay |

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2024-25 because the additional contributions during the fiscal year are estimated to offset the additional benefits paid out.

Section 39.20: Increases the NGPF monthly retirement benefit as follows, effective July 1, 2024:

| | <u>Current Law</u> | <u>Section 39.20</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>Buck</u> | <u>Hartman & Associates</u> |
|-------------------------------|-------------|---------------------------------|
| Increase in accrued liability | \$4,092,930 | \$4,092,930 |
| Increase in normal cost | \$6,331 | \$7,027 |

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:

| | <u>Buck</u> | <u>Hartman & Associates</u> |
|---|--------------|---------------------------------|
| (1) Full Actuarial Cost of Proposed Improvement | \$4,099,261 | \$4,099,957 |
| (2) Accrued Liability as of Last Valuation | 143,252,559 | 143,252,559 |
| (3) Actuarial Value of Assets as of Last Valuation | 182,447,658 | 182,447,658 |
| (4) Underlying ADEC for FY 2024-25 | 0 | 0 |
| (5) Policy Contribution without Increase for FY 2024-25 | 1,127,280 | 1,127,280 |
| (6) Total Adjustment (2) - (3) + (4) - (5) | (40,322,379) | (40,322,379) |
| BIFR: (1) + (6), not less than \$0 | 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 39.21: Increases the FRSWPF retirement benefit from \$170 per month to \$175 per month and increases the member contribution from \$10 per month to \$15 per month, both effective January 1, 2025.

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

| | <u>Buck</u> | <u>Hartman & Associates</u> |
|-------------------------------|--------------|---------------------------------|
| Increase in accrued liability | \$14,571,161 | \$14,800,000 |
| Increase in normal cost | \$192,967 | \$201,764 |

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:

| | <u>Buck</u> | <u>Hartman & Associates</u> |
|---|--------------|---------------------------------|
| (1) Full Actuarial Cost of Proposed Improvement | \$14,764,128 | \$15,034,522 |
| (2) Accrued Liability as of Last Valuation | 501,766,052 | 501,766,052 |
| (3) Actuarial Value of Assets as of Last Valuation | 522,126,681 | 522,126,681 |
| (4) Underlying ADEC for FY 2024-25 | 2,350,959 | 2,350,959 |
| (5) Policy Contribution without Increase for FY 2024-25 | 20,402,208 | 20,402,208 |
| (6) Total Adjustment (2) - (3) + (4) - (5) | (38,411,878) | (38,411,878) |
| BIFR: (1) + (6), not less than \$0 | 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.

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, 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>CJRS</u> | <u>NGPF</u> | <u>FRSWPF</u> |
| Active Members | | | | |
| Count | 297,802 | 581 | 5,614 | 25,263 |
| General Fund Compensation | \$12,657M | \$101M | Not applicable | Not applicable |
| Valuation Compensation (Total) | \$17,601M | \$88M | Not applicable | Not applicable |
| Average Age | 46 | 54 | 38 | 40 |
| Average Service | 10.9 | 11.3 | 15.0 | 11.2 |
| Inactive Members | | | | |
| Count | 218,956 | 60 | 2,885 | 18,116 |
| Retired Members | | | | |
| Count | 246,374 | 816 | 4,681 | 15,014 |
| Annual Benefits | \$5,259M | \$55M | \$9M | \$31M |
| Average Age | 72 | 74 | 73 | 69 |
| New Retirees During 2023 | 11,416 | 41 | 169 | 640 |

| Financial Statistics (as of 12/31/2022 unless otherwise noted, M = millions) | | | | |
|--|---------------|---------------|----------------|----------------|
| | <u>TSERS</u> | <u>CJRS</u> | <u>NGPF</u> | <u>FRSWPF</u> |
| Accrued Liability (AL) | \$96,675M | \$877M | \$143M | \$502M |
| Actuarial Value of Assets (AVA) | \$85,407M | \$721M | \$182M | \$522M |
| Market Value of Assets (MVA) | \$77,445M | \$654M | \$166M | \$474M |
| Unfunded Accrued Liability (AL - AVA) | \$11,268M | \$155M | (\$39M) | (\$20M) |
| Funded Status (AVA / AL) | 88% | 82% | 127% | 104% |
| Required Employer Contribution for FY 2024-25 | 16.79% of pay | 35.96% of pay | \$1M | \$20M |
| Salary Increase Assumption (includes 3.25% inflation and productivity) | 3.25% - 8.05% | 3.25% - 4.75% | 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>CJRS</u> | <u>NGPF</u> | <u>FRSWPF</u> |
| Formula | 1.82% x Service x 4 Year Avg Pay | 3.02% to 4.02% x Service x Final Pay | \$105 + \$10.50/year over 20 to a maximum of \$210 | \$170 |
| Unreduced retirement age/service | Any/30; 60/25; 65 (55 for LEO)/5 | 50/24; 65/5 | 60/20 | 55/20 |
| Employee contribution (as % of pay) | 6% | 6% | None | \$10/month |

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, "Teachers' and State Employees' Retirement System of North Carolina; Report on the Eightieth Actuarial Valuation Prepared as of December 31, 2022", October 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Buck, “Consolidated Judicial Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2022”, October 2023, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck, “Legislative Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2022”, October 2023, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck, “North Carolina National Guard Pension Fund; Report on the Actuarial Valuation Prepared as of December 31, 2022”, October 2023, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck, “North Carolina Firefighters’ and Rescue Squad Workers’ Pension Fund; Report on the Actuarial Valuation Prepared as of December 31, 2022”, October 2023, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “1% Non-Recurring Supplement for Retirees in the TSERS, LGERS, CJRS, and LRS”, May 15, 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.

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.

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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Signed copy located in the NCGA Principal Clerk's Offices