



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Actuarial Note - Retirement

Short Title: LEO Special Separation Allowance Options.
Bill Number: House Bill 50 (First Edition)
Sponsor(s): Rep. Pyrtle, Rep. Miller, Rep. Chesser, and Rep. Cotham

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 50, V.1 (\$ in thousands)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Impact	(425) to (16)	(1,240) to (132)	(1,927) to (226)	(2,425) to (215)	(2,656) to (140)
Highway Fund Impact	- to -	- to -	- to -	- to -	- to -
Other/Receipts Impact	- to -	- to -	- to -	- to -	- to -
NET STATE IMPACT	(425) to (16)	(1,240) to (132)	(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)

Costs could increase in future years outside the 5-year period shown in this table.

ACTUARIAL IMPACT SUMMARY

Systems Affected: State and local law enforcement special separation allowances, Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS)

House Bill 50 (First Edition) 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, the actuary for the retirement systems, 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, the actuary for the General Assembly, 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

The Hartman & Associates estimates from the table above are increased by the payroll growth assumption of 3.25% for two years to derive the estimates at the top of this note.

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.

ASSUMPTIONS AND METHODOLOGY

The cost estimates from the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2023 actuarial valuations, except that the estimates from Hartman & Associates are based on the employee data 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 12/31/2023 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Active Members		
Count	299,037	141,269
General Fund Compensation	\$12,657M (2024 Session)	
Valuation Compensation	\$18,382M	\$9,184M
Average Age	46	43
Average Service	10.8	9.3
Inactive Members		
Count	230,130	108,697
Retired Members		
Count	252,036	85,027
Annual Benefits	\$5,412M	\$1,818M
Average Age	72	70
New Retirees During 2024	11,336	4,295

Financial Statistics (as of 12/31/2023 unless otherwise noted, M = millions)		
	<u>TSERS</u>	<u>LGERS</u>
Accrued Liability (AL)	\$99,810M	\$39,519M
Actuarial Value of Assets (AVA)	\$88,619M	\$34,328M
Market Value of Assets (MVA)	\$83,643M	\$32,437M
Unfunded Accrued Liability (AL - AVA)	\$11,191M	\$5,191M
Funded Status (AVA / AL)	89%	87%
Required Employer Contribution for FY 2025-26 (as % of pay)	17.14%	14.35% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
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>LGERS</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%	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.

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, "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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Signed copy located in the NCGA Principal Clerk's Offices

