

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

BILL NUMBER: House Bill 1196 (First Edition)
SHORT TITLE: Charter School/Leave State Retire. System.
SPONSOR(S): Representative Turner

FUNDS AFFECTED: State General Fund, State Highway Fund, other State employer receipts

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System (TSERS).

BILL SUMMARY:

The First Edition authorizes the Board of Directors of Success Institute, a charter school in Iredell County, to end its participation in TSERS for all of its employees. It requires the Board to notify the Department of State Treasurer of its decision and to give its employees at least a seven-day notice before any vote by the Board regarding such revocation.

EFFECTIVE DATE: The bill is effective when it becomes law.

ESTIMATED IMPACT ON STATE:

Both Buck Consultants, the actuary for TSERS, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no material impact. However, this is due primarily to the fact that Success Institute has only seven active members and a payroll of roughly \$266,000 in the December 31, 2013 actuarial valuation data. If a larger entity were to leave TSERS, the impact on the system and the remaining employers could be substantial. In both of their notes, the actuaries recommend developing a method to determine and allocate any unfunded liability on a withdrawal basis to departing employers.

ASSUMPTIONS AND METHODOLOGY:

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2012 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2012 unless otherwise noted, M = millions)	
	<u>TSERS</u>
Active Members	
Count	312,512
General Fund Compensation	\$9,891M
Valuation Compensation (Total)	\$13,597M
Average Age	45
Average Service	10.5

Inactive Members	
Count	124,976
Retired Members	
Count	179,908
Annual Benefits	\$3,713M
Average Age	70
New Retirees During 2013	12,400

Financial Statistics (as of 12/31/2012 unless otherwise noted, M = millions)	
	<u>TSERS</u>
Accrued Liability (AL)	\$63,630M
Actuarial Value of Assets (AVA)	\$59,912M
Market Value of Assets (MVA)	\$57,780M
Unfunded Accrued Liability (AL - AVA)	\$3,718M
Funded Status (AVA / AL)	94%
Annual Required Contribution (ARC) for FY 2014-15 (as % of pay)	8.76%
Assumed Rate of Investment Return	7.25%
Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%
Cost Method	Entry Age Normal
Amortization	12 year, closed, flat \$
Demographic assumptions based on 2005-2009 experience, RP-2000 mortality with age adjustments, and projection of future mortality improvement with scale AA	

Benefit Provisions	
	<u>TSERS</u>
Formula	1.82% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/10 (5 if hired < Aug 2011)
Employee contribution (as % of pay)	6%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

SOURCES OF DATA:

Buck Consultants, “House Bill 1196 – Success Institute Withdrawal From TSERS”, May 30, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 1196: An Act to Authorize Success Institute, An Existing Charter School, to Elect to Revoke Its Decision to Participate In the Teachers’ and State Employees’ Retirement System”, June 7, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION: (919) 733-4910.

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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DATE: June 17, 2014



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