

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

## Legislative Retirement Note

**BILL NUMBER:** Senate Bill 744 (Seventh Edition)

**SHORT TITLE:** Appropriations Act of 2014.

**SPONSOR(S):**

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

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), and the National Guard Pension Fund (NGPF).

### **BILL SUMMARY:**

Section 35.14: Grants cost-of-living adjustments (COLAs) of one and forty-four hundredths percent (1.44%), effective July 1, 2014, for retirees in the TSERS, CJRS, and LRS.

Section 35.15B: Amends G.S. 58-86-55 to allow payment of monthly benefits in the FRSWPF at age 55 with 20 years of service, despite continued paid employment as a firefighter or rescue squad worker.

Section 35.15C: Amends G.S. 127A-40 to increase the monthly benefit in the NGPF to \$100 for 20 years of service and \$10 for each additional year of service, up to a maximum of \$200. The benefit is currently \$95 for 20 years of service and \$9.50 for each additional year of service, up to a maximum of \$190.

No other sections of the Seventh Edition modify retirement benefits or statutes.

**EFFECTIVE DATE:** All three provisions are effective July 1, 2014.

### **ESTIMATED IMPACT ON STATE:**

#### Section 35.14

Buck Consultants, the actuary for the TSERS, CJRS, and LRS, estimates that the provisions of Section 35.14 will have an annual cost in FY 2014-15 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll*	0.54%	0.85%	0.93%
General Fund	\$ 53,411,400	\$ 595,000	\$ 33,666
Highway Fund	\$ 1,776,600	\$ 0	\$ 0
Receipt Funds	\$ 19,848,748	\$ 0	\$ 0
Total Cost	\$ 75,036,748	\$ 595,000	\$ 33,666

Hartman & Associates, the actuary for the General Assembly, estimates that the provisions of Section 35.14 will have an annual cost in FY 2014-15 and subsequent years as follows:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>
Percent of Payroll*	0.52%	0.87%	0.96%
General Fund	\$ 51,433,200	\$ 609,000	\$ 34,752
Highway Fund	\$ 1,710,800	\$ 0	\$ 0
Receipt Funds	\$ 19,113,609	\$ 0	\$ 0
Total Cost	\$ 72,257,609	\$ 609,000	\$ 34,752

\* Percent of payroll figures are rounded up to the next highest hundredth of a percent.

The figures above assume that no actuarial gains are used to cover the cost of the COLA provisions. Both the CJRS and the LRS have sufficient gains available to cover the full cost of the COLA and the Seventh Edition uses those gains in part to cover the cost of the COLA.

Section 35.15B

Buck Consultants, the actuary for the FRSWPF, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of Section 35.15B will increase the normal cost and accrued liability contributions in FY 2014-15 and subsequent years as follows:

	<u>Buck Consultants</u>	<u>Hartman &amp; Associates</u>
Normal Cost	\$ 200,000	\$ 228,000
Accrued Liability Contribution	\$ 800,000	\$ 872,000
Total Annual Cost	\$ 1,000,000	\$ 1,100,000

The contributions above are paid entirely from the General Fund.

Section 35.15C

Buck Consultants, the actuary for the FRSWPF, and Hartman & Associates, the actuary for the General Assembly, estimate that the provisions of Section 35.15C will increase the normal cost and accrued liability contributions in FY 2014-15 and subsequent years as follows:

	<u>Buck Consultants</u>	<u>Hartman &amp; Associates</u>
Normal Cost	\$ 26,020	\$ 26,000
Accrued Liability Contribution	\$ 948,640	\$ 948,000
Total Annual Cost	\$ 974,660	\$ 974,000

The contributions above are paid entirely from the General Fund.

Appropriations

The Seventh Edition appropriates funds and sets contribution rates sufficient to cover the increased cost of these three sections and contribute the amount recommended by the actuary to properly fund existing benefits.

**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:

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>FRSWPF</u> <u>(6/30/12)</u>	<u>NGPF</u>
Active Members					
Count	312,512	564	169	40,870	5,365
General Fund Compensation	\$9,891M	\$70M	\$4M		
Valuation Compensation (Total)	\$13,597M	\$71M	\$4M	Not applicable	Not applicable
Average Age	45	55	60	40	39
Average Service	10.5	13.2	8.0	11.3	16
Inactive Members					
Count	124,976	48	81	154	5,032
Retired Members					
Count	179,908	559	283	11,912	4,282
Annual Benefits	\$3,713M	\$33M	\$2M	\$24M	\$7M
Average Age	70	72	76	68	69
New Retirees During 2013	12,400	40	37	575	154

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>FRSWPF</u> <u>(6/30/2012)</u>	<u>NGPF</u>
Accrued Liability (AL)	\$63,630M	\$528M	\$24M	\$404M	\$132M
Actuarial Value of Assets (AVA)	\$59,912M	\$481M	\$29M	\$339M	\$97M
Market Value of Assets (MVA)	\$57,780M	\$466M	\$28M	\$322M	\$93M
Unfunded Accrued Liability (AL - AVA)	\$3,718M	\$46M	(\$6M)	\$65M	\$35M
Funded Status (AVA / AL)	94%	91%	123%	84%	73%
Annual Required Contribution (ARC) for FY 2014-15 (as % of pay)	8.76%	26.55%	0.00%	\$14.6M	\$5.3M
Assumed Rate of Investment Return	7.25%	7.25%	7.25%	7.25%	7.25%

Salary Increase Assumption (includes 3.50% inflation and productivity)	4.25% - 9.10%	5.00% - 5.95%	7.50%	Not applicable	Not applicable
Cost Method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Entry Age Normal	Entry Age Normal
Amortization	12 year, closed, flat \$	12 year, closed, flat \$	8 year, open, flat \$	12 year, closed, flat \$	12 year, closed, flat \$

	<u>TSERS</u>	<u>CJRS</u>	<u>LRS</u>	<u>FRSWPF</u>	<u>NGPF</u>
Formula	1.82% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay	\$170 per month	\$95 to \$190 per month, depending on service
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/10 (5 if hired < Aug 2011)	50/24; 65/10 (5 if hired < Aug 2011)	65/5	55/20	60/20
Employee contribution (as % of pay)	6%	6%	7%	\$10 per month	None

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, “Cost of Living Adjustments for State, Judicial and Legislative Retirement Systems”, May 16, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck Consultants, “Volunteer Fire & Rescue Finances (House Bill 1034 and Senate Bill 747)”, May 21, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Buck Consultants, “Actuarial Impact of \$10 Benefit Increase for the North Carolina National Guard Pension Fund”, February 5, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “1% COLA for Retirees in the TSERS, LGERS, CJRS, and LRS Systems”, May 14, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “House Bill 1034/Senate Bill 747, Section 3: An Act to Amend the Supplemental Pensions for Firefighters and Rescue Squad Workers”, May 27, 2014, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Increase in the Maximum Monthly Pension for Retired Members of the North Carolina National Guard”, June 4, 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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**APPROVED BY:**

Mark Trogdon, Director  
Fiscal Research Division

**DATE:** July 14, 2014



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