



# NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

## Legislative Actuarial Note - Retirement

**Short Title:** Death Benefits Parity/Fire & Rescue Increase.  
**Bill Number:** House Bill 270 (Second Edition)  
**Sponsor(s):** Rep. Howard

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 270, V.2 (\$ in thousands)

	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>
<b>State Impact</b>					
General Fund	-	-	-	-	-
Highway Fund	-	-	-	-	-
Other/Receipts	-	-	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	-	-	-	-	-
<b>Local Impact</b>					
Local Governments	-	-	-	-	-
<b>TOTAL LOCAL EXPENDITURES</b>	-	-	-	-	-

The bill increases benefits, but there is a surplus in all the affected benefit programs that can be used to cover the cost of those increases, so no additional contributions are required. The use of that surplus has an opportunity cost because the surplus could instead be used for other purposes.

### ACTUARIAL IMPACT SUMMARY

Systems Affected: Legislative Retirement System (LRS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), State Portion of Death Benefit Plans (SDPB), Local Portion of Death Benefit Plans (LDPB)

Section 1.1: Increases the active employee death benefit for members of the Teachers' and State Employees' Retirement System (TSERS) from one year of compensation, subject to a minimum of \$25,000 and maximum of \$50,000, to simply \$50,000 for everyone.

Buck, the actuary for the retirement systems, estimates that this section will reduce the surplus in the SDBP by \$15.6 million and increase the cost by 0.01% of pay, although the current contribution of 0.13% of pay will still exceed the required contribution. This includes the impact of Section 1.3.

Hartman & Associates, the actuary for the General Assembly, estimates that this section will reduce the surplus in the SDBP by \$9.3 million.

Section 1.2: Increases the active employee death benefit for members of the Local Governmental Employees' Retirement System from one year of compensation, subject to a minimum of \$25,000 and maximum of \$50,000, to simply \$50,000 for everyone.

Buck estimates that this section will reduce the surplus in the LDBP by \$2.7 million. The contribution rates vary by employer and by employee classification, but Buck estimates that the cost would increase overall by less than 0.01% of pay.

Hartman & Associates, the actuary for the General Assembly, estimates that this section will reduce the surplus in the LDBP by \$1.9 million.

Section 1.3: Increases the active employee death benefit for members of LRS from the highest annual salary, subject to a maximum of \$15,000, to simply \$50,000 for everyone. This change is effective retroactively to January 1, 2020. This benefit is paid from the SDBP, but no contribution to the SDBP is currently made on behalf of the LRS members.

Buck's estimate of the impact of this section is reflected under Section 1.1 above. Hartman & Associates estimates that this section will reduce the surplus in the SDBP by \$0.1 million.

Section 2: 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 July 1, 2023.

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

	<u>Buck</u>	<u>Hartman &amp; Associates</u>
Increase in accrued liability	\$14,430,466	\$14,700,000
Increase in normal cost	\$196,297	\$205,160

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 &amp; Associates</u>
(1) Full Actuarial Cost of Proposed Improvement	\$14,626,763	\$14,884,164
(2) Accrued Liability as of Last Valuation	496,483,247	496,483,247
(3) Actuarial Value of Assets as of Last Valuation	508,510,376	508,510,376
(4) Underlying ADEC for FY 2023-24	3,253,378	3,253,378
(5) Policy Contribution without Increase for FY 2023-24	20,052,208	20,052,208
(6) Total Adjustment (2) - (3) + (4) - (5)	(28,825,959)	(28,825,959)
BIFR: (1) + (6), not less than \$0	0	0

## 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, 2021 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2021 unless otherwise noted, M = millions)			
	<u>SDBP</u>	<u>LDBP</u>	<u>FRSWPF</u>
Active Members			
Count	300,310	108,847	25,713
General Fund Compensation	\$11,960M	Not applicable	Not applicable
Reported Compensation	\$15,312M	\$5,581M	Not applicable
Average Age	46	44	40
Average Service	11.0	9.9	11.1
Inactive Members			
Count	4,961	0	16,661
Retired Members			
Count	Not applicable	Not applicable	14,741
Annual Benefits	Not applicable	Not applicable	\$30M
Average Age	Not applicable	Not applicable	69

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)	
	<u>FRSWPF</u>
Accrued Liability (AL)	\$496M
Actuarial Value of Assets (AVA)	\$509M
Market Value of Assets (MVA)	\$538M
Unfunded Accrued Liability (AL - AVA)	(\$12M)
Funded Status (AVA / AL)	102%
Required Employer Contribution for FY 2023-24	\$20M
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	

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)		
	<u>SDBP</u>	<u>LDBP</u>
Liability	\$155M	\$53M
Assets	\$65M	\$92M
Present Value of Future Contributions	\$211M	\$41M
Deficit/(Surplus)	(\$120M)	(\$80M)
Required Employer Contribution for FY 2023-24	0.06%	Varies
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%

Assumed Rate of Investment Return: 3.00%
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019

Benefit Provisions			
	<u>SDBP</u>	<u>LDBP</u>	<u>FRSWPF</u>
Formula	One Year of Compensation; Min of \$25,000; Max of \$50,000	One Year of Compensation; Min of \$25,000; Max of \$50,000	\$170 per month
Unreduced retirement age/service			55/20
Employee contribution (as % of pay)	None	None	\$10 per 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**

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N/A.

## **DATA SOURCES**

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Buck, "House Bill 270 - Death Benefits Parity", March 9, 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; Principal Results of Actuarial Valuation as of December 31, 2021", October 27, 2022, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 270: Death Benefits Parity", March 14, 2023, 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", January 25, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

## **LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS**

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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**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

**ESTIMATE PREPARED BY**

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**ESTIMATE APPROVED BY**

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May 2, 2023



**Signed copy located in the NCGA Principal Clerk's Offices**