



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: Transformational Investments in NC Health.
Bill Number: Senate Bill 743 (Second Edition)
Sponsor(s): Sen. Ralph Hise and Sen. Joyce Krawiec

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 743, 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>
State Impact					
General Fund Impact	- to 40,664	- to 41,985	- to 43,350	- to 44,759	- to 46,214
Highway Fund Impact	- to 1,198	- to 1,237	- to 1,278	- to 1,319	- to 1,362
Other/Receipts Impact	- to (41,862)	- to (43,223)	- to (44,628)	- to (46,078)	- to (47,575)
NET STATE IMPACT	- to -	- to -	- to -	- to -	- to -

The fact that the Other/Receipts Impact shown above is negative is entirely due to the impact at the University of North Carolina Health Care System (UNCHCS). Contributions currently paid by UNCHCS would instead be paid by all other agencies regardless of funding source.

ACTUARIAL IMPACT SUMMARY

Sections 2.11 through 2.14 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS) and Optional Retirement Program (ORP)

Senate Bill 743 (Second Edition) closes TSERS to new hires of the University of North Carolina Health Care System (UNCHCS) on or after November 1, 2023 and states that members of TSERS or ORP at UNCHCS prior to that date remain members unless they make a one-time, irrevocable election to cease membership in favor of a similar, but unspecified, benefit offered by UNCHCS. Employees of UNCHCS hired on or after November 1, 2023 would participate in ORP; participate in a similar, but unspecified benefit; or have a choice between these two programs. If an employee ceases to be employed by UNCHCS and is later reemployed by UNCHCS, they would be treated the same as an employee newly hired on or after November 1, 2023.

Buck, the actuary for TSERS, estimates that the bill would increase the actuarially determined employer contribution of TSERS by at most 0.34% of compensation if all current TSERS members working for UNCHCS opted to instead participate in the new retirement benefit offered by UNCHCS. This estimate was used for one end of the range of impacts in the Summary Table above.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will have a negligible financial impact on TSERS, assuming that current TSERS members elect to remain in TSERS. Hartman & Associates notes that the payroll basis over which unfunded accrued liability is amortized will begin to decrease as new hires no longer enter TSERS, but estimates that this will have minimal impact due to the 12-year amortization period and a funding policy that may result in even greater contributions than required by 12-year amortization. This estimate was used for the other end of the range of impacts in the Summary Table.

While legal considerations are outside the scope of this note, Buck also commented that the choice between TSERS or ORP and a new retirement benefit program offered by UNCHCS, as well as a potential merger with a nonprofit corporation as described in G.S. 116-350.60, as enacted by the bill, must adhere to strict standards to maintain compliance with federal law.

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>TSERS</u>
Active Members	
Count	300,310
General Fund Compensation	\$11,960M
Valuation Compensation (Total)	\$16,633M
Average Age	46
Average Service	11.0
Inactive Members	
Count	198,642
Retired Members	
Count	238,652
Annual Benefits	\$5,045M
Average Age	72
New Retirees During 2022	12,700

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)	
	<u>TSERS</u>
Accrued Liability (AL)	\$92,356M
Actuarial Value of Assets (AVA)	\$83,139M
Market Value of Assets (MVA)	\$87,966M
Unfunded Accrued Liability (AL - AVA)	\$9,217M
Funded Status (AVA / AL)	90%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%

Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%
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>ORP</u>
Formula	1.82% x Service x 4 Year Avg Pay	6.84% of pay employer contribution
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/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.

Hartman & Associates assumed that all current TSERS members will elect to remain in TSERS. Buck assumed that all current TSERS members will elect to join the alternative retirement benefit program offered by UNCHCS. Buck does not anticipate that this assumption would fully represent employee behavior if Senate Bill 743 was enacted—rather, results using this assumption are intended to demonstrate the potential variability in the impact of the bill. For several reasons, most notably because the alternative retirement benefit program that might be offered by UNCHCS is unspecified in the bill, it is difficult to predict how many current employees might elect to remain in TSERS.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Buck, "Transformational Investments in NC Health (SB 743)", April 24, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 743: Transformational Investments in NC Health (Sections 2.11 through 2.16)", April 24, 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