

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

RETIREMENT

BILL NUMBER: House Bill 357 (First Edition)
SHORT TITLE: Retirement Governance Changes Act of 2013.-AB
SPONSOR(S): Representatives Howard, W. Brawley, Collins, and Moffitt

FUNDS AFFECTED: State and Local Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and the Supplemental Retirement Income Plan.

EFFECTIVE DATE: July 1, 2013

BILL SUMMARY:

Section 1: Clarify Role of the Supplemental Retirement Board of Trustees

Clarifies that the Supplemental Retirement Board of Trustees has authority over all State-sponsored defined contribution plans. This clarification does not change the existing structure; it simply consolidates the statutory governance provisions into one location. This section also allows the Supplemental Retirement Plans to hire investment managers without issuing requests for proposals under state purchase contract law. Currently the bypass of procurement procedures is only allowed for managing the pension fund; this provision would now extend to Supplemental Retirement Plans.

Section 2: Governance of the Register of Deeds Pension Fund

The Register of Deeds' Supplemental Pension Fund provides supplemental benefits to county Register of Deeds who are retired from the Local Governmental Employees' Retirement System. Currently, the statute gives administrative authority for the Register of Deeds' Supplemental Pension Fund to the Department of State Treasurer, and the Department wishes to promote transparency by transferring oversight of the plan to the Board of Trustees of the Local Government Employees Retirement System.

Section 3: Governance of the National Guard Pension Fund

The National Guard Pension Fund provides a pension to members of the North Carolina National Guard. Currently, the statute gives administrative authority for the National Guard Pension Fund to the Department of State Treasurer. This section transfers administrative responsibility to the Board of Trustees of the Teachers' and State Employees' Retirement System. The Department promotes transparency and governance by requiring oversight from the Board of Trustees for Teachers' and State Employees' Retirement System.

Section 4: Governance of the Firemen’s and Rescue Squad Workers’ Pension Fund

The Firemen’s and Rescue Squad Workers’ Pension Fund provides pension allowances and other benefits to paid and volunteer firefighters and rescue squad workers who elect to become members of the fund. Currently, governance oversight rests with the Board of Trustees of the North Carolina Firemen’s and Rescue Squad Workers’ Pension Fund. However, another piece of requested agency legislation (House 327, Senate 304) eliminates the Board of Trustees, and transfers governance oversight to the Board of Trustees for Local Government Employees’ Retirement System.

This section provides an option for the Governor, the President Pro-Tem, or the Speaker of the House to appoint a firefighter or rescue squad worker as one or more of the public members of the Board of Trustees of the Teachers’ and State Employees’ Retirement System who also serves on the Board of Trustees of the Local Governmental Retirement System. It also provides an option for the Governor, the President Pro-Tem, or the Speaker of the House to appoint a member of the National Guard as one or more of the public members of the Board of Trustees of the Teachers’ and State Employees’ Retirement System.

Section 5: Immunity from Civil Liability for the Supplemental Retirement Board of Trustees

Provides personal immunity from civil liabilities for fiduciary decisions made by members of the Board of Trustees of the Supplemental Retirement Plan. Currently, protections from personal liabilities have made it difficult for the Department of State Treasurer to identify individuals who will agree to serve on this board.

Sections 7 & 8: Governance of the Legislative Retirement System

Establishes a clear line of oversight for the Legislative Retirement System to increase transparency and promote the efficient implementation of the new Government Accounting Standards Board pension standards.

ESTIMATED IMPACT ON STATE: Buck Consultants, the Retirement Systems’ actuary, and Hartman & Associates, the General Assembly’s actuary, does not expect these governance changes to have a material financial impact on any of the systems.

ASSUMPTIONS AND METHODOLOGY:

Teachers’ & State Employees’ Retirement System

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, 2011 actuarial valuation of the System. The data included 310,627 active members with an annual payroll of \$12.8 billion, 171,786 retired members in receipt of annual pensions totaling \$3.5 billion and actuarial value of assets equal to \$58.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law

enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of twelve years. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Consolidated Judicial Retirement System

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, 2011 actuarial valuation of the System. The data included 566 active members with an annual payroll of \$67.8 million, 562 retired members in receipt of annual pensions totaling \$32.3 million and actuarial value of assets equal to \$460.6 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) salary increase rate between 5% and 5.95% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward one year, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year, (f) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit with an amortization period of twelve years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Legislative Retirement System

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, 2011 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.6 million, 278 retired members in receipt of annual pensions totaling \$2.1 million and actuarial value of assets equal to \$29.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality tables for deaths in service and after retirement and (c) 100% vesting after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with an amortization period of eight years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Local Governmental Employees' Retirement System

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, 2011 actuarial valuation of the fund. The data included 121,638 active members with an annual payroll of \$5.1 billion, 51,700 retired members in receipt of annual pensions totaling \$909 million and actuarial value of assets equal to \$19.3 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for

retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. Gains and losses are reflected in the normal rate. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: None

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: April 1, 2013



Signed Copy Located in the NCGA Principal Clerk's Offices