NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Actuarial Note - Retirement

Short Title: LLEA Return to Work from Retirement.
Bill Number: House Bill 768 (First Edition)
Sponsor(s): Rep. Carson Smith, Rep. Pyrtle, Rep. Greene, and Rep. Miller

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 768, V.1 ($ in thousands)

	FY 2023-24			FY 2024-25			FY 2025-26			FY 2026-27			FY 2027-28		
State Impact															
General Fund Impact	79	to	6,982	218	to	7,546	334	to	7,992	436	to	7,896	-	to	8,341
Highway Fund Impact	-	to	106	-	to	109	-	to	113	-	to	116	-	to	120
Other/Receipts Impact	-	to	2,023	-	to	2,088	-	to	2,156	-	to	2,226	-	to	2,299
NET STATE IMPACT	**79**	**to**	**9,110**	**218**	**to**	**9,743**	**334**	**to**	**10,261**	**436**	**to**	**10,239**	**-**	**to**	**10,760**
Local Impact															
Local Governments	1,157	to	26,216	3,457	to	27,762	5,336	to	29,030	6,927	to	29,949	-	to	31,519
NET LOCAL IMPACT	**1,157**	**to**	**26,216**	**3,457**	**to**	**27,762**	**5,336**	**to**	**29,030**	**6,927**	**to**	**29,949**	**-**	**to**	**31,519**

The estimates shown here are based on actuarial notes prepared for a different bill. Please see the Technical Considerations section for more information.

ACTUARIAL IMPACT SUMMARY

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), State and local law enforcement special separation allowances.

House Bill 768 (First Edition) allows any TSERS or LGERS member who retired as a law enforcement officer (LEO) to continue to receive benefits under TSERS or LGERS while working as a LEO in any capacity. The bill is effective when it becomes law and applies to both current and future retirees.

Under current law, TSERS and LGERS retirees can work during retirement for participating employers with certain limitations and the following table compares the current law with the provisions of this bill:

	Current Law	Retired LEO working as a LEO under House Bill 768
Earnings Limitation	Max of 50% of pre-retirement earnings or $39,660 (in 2023)	Unlimited
Type of Employment	Part-time, temporary, interim, or fee-for-service	Any type
Contribute to TSERS/LGERS	No	Employer makes both employee and employer contributions
Earn service credit	No	No
Required Break in Service after Retirement	Six months (TSERS) One month (LGERS)	Six months (TSERS) One month (LGERS)

Buck, the actuary for the retirement systems, estimates that the bill will increase the actuarially determined employer contribution (ADEC) of TSERS by at most 0.03% of pay and of LGERS by at most 0.20% of pay for General Employees and Firefighters and 0.06% of pay for LEOs. The ADEC for General Employees and Firefighters increases because the increase in accrued liability is assumed to be amortized over the total LGERS payroll.

Hartman & Associates, the actuary for the General Assembly, estimates that the bill will not change the ADEC for TSERS and LGERS.

The actuaries estimate the following increases in Special Separation Allowance payments:

	Buck		Hartman & Associates	
Year	State	Local	State	Local
FY 2023-24	$ 3,394,000	$ 11,384,000	$ 78,657	$ 1,157,248
FY 2024-25	3,841,000	12,448,000	218,203	3,457,147
FY 2025-26	4,167,000	13,219,000	334,163	5,336,100
FY 2026-27	3,947,000	13,624,000	435,861	6,927,297
FY 2027-28	4,263,000	14,663,000	476,935	7,868,576

The figures in the Summary Table use the Hartman & Associates estimates as the lower end of the range and the Buck estimates as the higher end of the range and assume that all State Special Separation Allowances are paid from the General Fund.

Reemployment under the provisions of this bill may violate federal tax law, but that determination is outside the scope of this note. While federal law does permit retirees to receive a benefit while working, this is only allowed under certain circumstances and the bill does not appear to create the required circumstances. Buck also noted many ambiguities in the drafting of the bill that would need to be resolved prior to implementation.

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)		
	TSERS	LGERS
Active Members		
Count	300,310	132,235
General Fund Compensation	$11,960M	
Valuation Compensation (Total)	$16,633M	$7,550M
Average Age	46	44
Average Service	11.0	9.9
Inactive Members		
Count	198,642	93,473
Retired Members		
Count	238,652	79,318
Annual Benefits	$5,045M	$1,633M
Average Age	72	69
New Retirees During 2022	12,700	4,800

Financial Statistics (as of 12/31/2021 unless otherwise noted, M = millions)		
	TSERS	LGERS
Accrued Liability (AL)	$92,356M	$34,884M
Actuarial Value of Assets (AVA)	$83,139M	$31,643M
Market Value of Assets (MVA)	$87,966M	$33,460M
Unfunded Accrued Liability (AL - AVA)	$9,217M	$3,241M
Funded Status (AVA / AL)	90%	91%
Required Employer Contribution for FY 2023-24 (as % of pay)	16.44%	12.85% (non-LEO)
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 8.25%
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			
	TSERS	LGERS	Special Separation Allowance
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	0.85% x Service x Final Base Pay; Payable until age 62
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 55/5
Employee contribution (as % of pay)	6%	6%	0%

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 increases in retirement rates for LEOs when first eligible for unreduced retirement of 3 percentage points in TSERS and 15 percentage points in LGERS. Hartman & Associates also assumed that positions would be available for reemployment at the same pay level.

Buck assumed 100% of LEOs retire upon reaching unreduced retirement eligibility, and that 100% return to work under the provisions of the bill and remain employed as long as is implied by current retirement assumptions. This is intended to demonstrate the maximum possible impact of the proposed legislation.

The increased costs estimated by both actuaries are due to members accelerating their retirements.

TECHNICAL CONSIDERATIONS

The analysis in this note is based on the actuarial notes provided instead for Senate Bill 113 (First Edition), which is similar to House Bill 768 (First Edition), but differs in three notable ways:

a. House Bill 768 requires employers to also pay employee and employer contributions for retirees rehired on a part-time, temporary, or contract basis and earning less than the cap. Senate Bill 113 seems to allow this type of employment without paying the contributions.
b. House Bill 768 clarifies situations in which the special separation allowance would continue, which are consistent with the assumptions used in developing the actuarial notes for Senate Bill 113.
c. House Bill 768 expires four years after it becomes law. Senate Bill 113 does not expire.

The analysis in this note has made no modifications to reflect a. and b. To reflect c., the Summary Table in this note shows a lower end of the range of impacts in FY 2027-28 of $0. The impact after expiration could be greater than $0 due to amortization of unfunded liability increases over a period longer than four years and because officers may anticipate the expiration to be amended, as has happened with some previous retiree return-to-work laws. The expiration after four years could lower the impact during the first four years if it causes fewer officers to accelerate their retirement, but this is not reflected in this analysis.

DATA SOURCES

Buck, "Bring Back Our Heroes (SB 113)", April 13, 2023, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 113: An Act Allowing Law Enforcement Officers to Receive Retirement Benefits and Subsequently Return to Service", April 6, 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