

North Carolina Contributory Death Benefit Plan

Discussion and Analysis of Proposed Election Assumption

Election Assumption

- New GASB standard is effective for fiscal years ending in 2017 and later
- The primary purpose of this analysis is to evaluate the impact of election rate assumptions for active employees
- In order to comply with GASB Statement No. 74, financial statement disclosure calculations must include a liability for active and terminated members who have not yet retired but could elect coverage at retirement.
 - For future GASB disclosures, an assumption must be made for the percentage of non-retired employees who may elect coverage at retirement.
 - Current funding calculations only include a liability for retirees who have actually elected coverage under the Plan. New retiree premiums (effective for retirements on or after March 1, 2017) are expected to fully cover the liabilities for future retirees.
 - Future funding calculations could also reflect the anticipated benefits and retiree premiums that will be paid by current non-retired individuals but do not necessarily have to reflect this change.

Proposed Election Assumption – Healthy Retirements

Proposed Assumption:

50% of members elect coverage under the Plan at retirement based upon the following analysis.

Plan*	Total Retirements in the Past Five Years	Total Retirees who Elected Coverage	Percentage of Retirees who Elected Coverage
TSERS	53,722	26,061	49%
LGERS	17,712	8,869	50%
CJRS	162	42	26%

* Members of LRS are also eligible for coverage under the Plan; however, there is not enough data to provide credible experience

Proposed Election Assumption – Disabled Retirements

Proposed Assumption:
65% of members elect coverage under the Plan at retirement based upon the following analysis.

Plan*	Total Retirements in the Past Five Years	Total Retirees who Elected Coverage	Percentage of Retirees who Elected Coverage
TSERS	3,373	1,994	59%
LGERS	2,193	1,504	69%

* Members of CJRS and LRS are also eligible for coverage under the Plan; however, there is not enough data to provide credible experience

Proposed Election Assumption – Total OPEB Liability* at 6/30/2016

	0% Election Assumption	Proposed Election Assumption	Difference
Present Value of Future Death Benefits	\$560 million	\$954 million	\$394 million
Present Value of Future Retiree Premiums	\$245 million	\$645 million	\$400 million
Total OPEB Liability	\$315 million	\$309 million	\$(6) million

* Results shown are intended to illustrate the impact of the proposed assumption. They assume a discount rate of 3.75%. Actual results for the purposes of GASB 74 at July 30, 2016 will use a blended discount rate as required under GASB 74.

Retiree premiums were increased effective for retirements on or after March 1, 2017. These premiums were calculated to be roughly actuarially equivalent to expected death benefits; therefore, while the present value of future death benefits and future premiums increases significantly, the net effect of including a liability for future retirees has a small impact on the total OPEB liability.

Full summaries of the data, assumptions, methods, and plan provisions used for the June 30, 2016 total OPEB liability, except those noted previously, were provided in October 2016 in the “Report on the Actuarial Valuation of the Death Benefit Plans of North Carolina Prepared as of December 31, 2015”. The actuarial cost method used to develop the total OPEB liability is the Entry Age Normal Cost method, as required by GASB Statement No. 74.

These results were prepared under the direction of Michael Ribble who meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. These results have been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions about them.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

Except where otherwise indicated, an analysis of the potential range of such future differences is beyond the scope of this report.

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