

Decisions on Teachers' and State Employees' Retirement System (TSERS)

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of 10.08 percent is greater than the appropriated employer contribution rate in the state budget of 9.98 percent for fiscal year ending 2017. The ADEC is the mathematical baseline contribution rate that would fund the system using the Board's assumptions adopted on January 21, 2016. Further, the Board adopted the *Employer Contribution Rate Stabilization Policy (ECRSP)* on January 21, 2016, a policy that serves to provide predictable incremental increases in the employer contribution rate to ameliorate the forecasted interest rate environment. Under this approach, contributions will be 0.35 percent of payroll greater than the appropriated contribution from the prior fiscal year, with the following bounds: (1) Contributions may not be less than the ADEC rate and (2) contributions may not be greater than a contribution determined using the same assumptions used to calculate the ADEC but using a discount rate equal to the long-term Treasury bond yield. The Employer Contribution Rate Stabilization Policy results in a recommended contribution rate of 10.33 percent of payroll for fiscal year ending 2018. The rate of 10.33 percent is the minimum contribution after an increase of 0.35 percent to the prior appropriated contribution rate of 9.98 percent, pursuant to the terms of the ECRSP. Therefore, the state budget allocated from the General Fund will need to increase by \$34.5 million to meet the new contribution under the ECRSP for fiscal year ending 2018.

Policy Option for Consideration by the Board of Trustees

Recommend an Increase to Current Appropriation to Fund the Employer Contribution Required by the Employer Contribution Rate Stabilization Policy:

Recommend the legislature increase the appropriation to 10.33 percent. The additional appropriation needed from the General Fund would be \$34.5 million. **Staff Recommendation**

Decisions on Consolidated Judicial Retirement System (CJRS)

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of 30.23 percent is greater than the state budget of 29.46 percent for fiscal year ending 2017. Therefore the state budget allocated from the General Fund will need to increase by \$539,000 to meet the new ADEC for fiscal year ending 2018.

Policy Option for Consideration by the Board of Trustees

Recommend an Increase to Current Appropriation to Fund the ADEC:

Recommend the legislature increase the appropriation to 30.23 percent. The additional appropriation needed from the General Fund would be \$539,000. **Staff Recommendation**

Decisions on Legislative Retirement System (LRS)

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of 18.27 percent is greater than the state budget of 18.22 percent for fiscal year ending 2017. Therefore the state budget allocated from the General Fund will need to increase by \$1,810 to meet the new ADEC for fiscal year ending 2018.

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ADEC:

Recommend the legislature increase the appropriation to 18.27 percent. The additional appropriation needed from the General Fund would be \$1,810. **Staff Recommendation**

Decisions on the Disability Income Plan

Issue: Based on assumptions adopted in April 2016, which include an assumed rate of return on investments of 3.75 percent, the most recent valuation report shows that the new Annual Required Contribution (ARC) is 0.14 percent of state payroll for fiscal year ending 2018. This is lower than the fiscal year 2017 contribution rate of 0.38 percent. The General Assembly could lower the contribution rate to the ARC without negatively impacting the funding of the plan. Benefit enhancements are not being considered at this time.

Policy Option for Consideration by the Board of Trustees

Recommend Lowering the Employer Contribution Rate to 0.14 Percent:

Recommend that the General Assembly lower the Employer Contribution Rate from 0.38 percent of payroll to 0.14 percent of payroll. **Staff Recommendation**

Decisions on North Carolina National Guard Pension Fund

Issue: The most recent valuation report shows that the new Actuarially Determined Employer Contribution (ADEC) of \$8,923,153 is greater than the state budget of \$8,517,073 for fiscal year ending 2017. Therefore the state budget allocated from the General Fund will need to increase by \$406,080 to meet the new ADEC for fiscal year ending 2018.

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ADEC:

Recommend the legislature increase the appropriation to \$8,923,153. The additional appropriation needed from the General Fund would be \$406,080.

Option Two – Recommend an Increase to Current Appropriations of \$2 million above the ADEC:

Recommend the legislature increase the appropriation to \$10,923,153. This increase would provide for an accelerated payment schedule that would pay off the unfunded liability on this pension plan in about seven years instead of the current 12 as a means to more rapidly improve the funded status. The additional appropriation needed from the General Fund would be \$2,406,080. **Staff Recommendation**

**SUMMARY OF ALTERNATIVES
FOR PRESENTATION TO THE 2017 GENERAL ASSEMBLY**

<u>Retirement System</u>	<u>Employer Contributions</u>	<u>Enhance Benefits</u>
Teachers' and State Employees'	Increase employer contribution rate ¹ by 0.35% for a cost in the first year to the General Fund of \$34,527,500 and to the Highway Fund of \$1,060,500	No undistributed gain available for benefit enhancements
Consolidated Judicial	Increase employer contribution rate ² by 0.77% for a cost in the first year to the General Fund of \$539,000	No undistributed gain available for benefit enhancements
Legislative	Increase employer contribution rate ³ by 0.05% for a cost in the first year to the General Fund of \$1,810	No undistributed gain available for benefit enhancements
National Guard	Increase employer contribution ⁴ by \$406,080	No undistributed gain available for benefit enhancements

FOOTNOTES:

¹The total appropriated employer contribution rate for fiscal year ending June 30, 2017 is 9.98%. The estimated payrolls for the 2016 Session of the General Assembly were \$9,865,000,000 for the General Fund and \$303,000,000 for the Highway Fund.

²The total appropriated employer contribution rate for fiscal year ending June 30, 2017 is 29.46%. The estimated payroll for the 2016 Session of the General Assembly was \$70,000,000.

³The total appropriated employer contribution rate for fiscal year ending June 30, 2017 is 18.22%. The estimated payroll for the 2016 Session of the General Assembly was \$3,620,000.

⁴The total appropriated employer contribution for fiscal year ending June 30, 2017 is \$8,517,073.