



North Carolina
Total Retirement Plans



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January 28, 2021

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

Issue. G.S. 135-8(d)(3a) requires that employer contributions to TSERS in each year “shall not be less than the sum of the rate per centum known as the actuarially determined employer contribution [ADEC] rate... as adjusted higher under a contribution rate policy adopted by the Board of Trustees and known as the ‘required employer contribution’ rate.” G.S. 135-8(d)(2a) requires that the ADEC rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.”

ADEC Rate: The most recent TSERS actuarial valuation report documents the recommended ADEC rate for the fiscal year ending in 2022. The ADEC is the mathematical baseline contribution rate that would fund the system using the Board’s assumptions and methods adopted on January 21, 2016 (and April 26, 2018 with respect to the rate-of-return assumption), and plan population and asset information as of December 31, 2019.

The ADEC rate for the fiscal year ending in 2022 is 15.74% of covered pay. This ADEC is greater than the appropriated employer contribution rate from S.L. 2020-41 (House Bill 1218) for the fiscal year ending in 2021, which is 14.78% of covered pay.

Adjustment for Contribution Policy: 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 any potential adverse experience. Under the ECRSP, contributions will be 0.35% of covered pay greater than the appropriated contribution from the prior fiscal year, with the following bounds:

1. The ECRSP rate may not be less than the ADEC rate, and
2. The ECRSP rate may not be greater than a contribution rate determined using the same assumptions used to calculate the ADEC but with a discount rate equal to the long-term Treasury bond yield.

The appropriated employer contribution rate for FY 2021 is 14.78%. The ECRSP would indicate an employer contribution rate of 15.13% for FY 2022 (equal to 14.78% plus 0.35%), subject to the lower bound of the ADEC rate (15.74%) and the upper bound equal to the ADEC-type calculation using a long-term Treasury discount rate (approximately 75.68%). Therefore, the recommended employer contribution rate is equal to the ADEC, 15.74% of covered pay, which is the lower bound of the allowable contribution rates pursuant to the terms of the ECRSP. The amount appropriated from the General Fund would need to increase by \$107.2 million from the amount appropriated for the fiscal year ending in 2021.

Cost of Living Adjustment (COLA). Based on the actuarial losses recognized in this December 31, 2019, valuation, no Cost-of-Living Adjustment (COLA) effective July 1, 2021, could be funded by actuarial gains. In their presentation to the Board in October 2020, Cavanaugh Macdonald Consulting estimated that a potential COLA effective July 1, 2022, could be funded by actuarial investment gains following the December 31, 2020, valuation as follows:

1. If calendar year 2020 market value returns exceed 2.4% (or about \$1.8 billion for TSERS), the plan is estimated to have an actuarial investment gain (rather than a loss) and a COLA could be considered; and
2. If calendar year 2020 market value returns exceed 5.9% (or about \$4.4 billion for TSERS), the plan is estimated to have an actuarial investment gain (rather than a loss) and such gain may be enough to provide a 1% recurring COLA.

These estimates assume no other offsetting actuarial losses in the December 31, 2020, valuation.

Policy Option for Consideration by the Board of Trustees. Recommend the legislature increase the appropriation to 15.74%, to cover the “required employer contribution” described in G.S. § 135-8(d)(3a). This amount is an increase of \$107.2 million from the amount appropriated from the General Fund for the fiscal year ending in 2021 under S.L. 2020-41.¹ **Staff Recommendation.**

¹ As illustrated in the footnotes to the “Summary” page of this document, the approximate dollar amounts for appropriations effective July 1, 2021, are estimated using the “Estimated State Payrolls for Retirement Appropriations Purposes for the 2020 Session of the North Carolina General Assembly,” set forth in a letter from the Executive Director of the Retirement Systems to the State Budget Director and the Director of the Fiscal Research Division of the General Assembly, dated April 20, 2020. For example, the approximate increase in appropriations from the General Fund (\$107.2 million) is estimated as \$11,166,371,000 (the TSERS payroll derived from General Fund appropriations, from the aforementioned memo) times 0.96% (15.74% minus 14.78%). Once a similar payroll letter is finalized for the 2021 Session of the General Assembly, the dollar amounts would change in accordance with the new estimated payroll amounts.

Decisions on Consolidated Judicial Retirement System (CJRS)

Issue. G.S. 135-66(d) provides that an actuarially determined employer contribution (ADEC) rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.” G.S. 135-66(e) provides that “the Board of Trustees may adopt a contribution policy that would recommend a contribution not less than the [ADEC].” G.S. 135-66(f) provides that “the recommended employer contribution rate by the Board of Trustees each year shall not be less than the [ADEC].”

The most recent valuation report shows the ADEC rate for the fiscal year ending in 2022. The ADEC is the mathematical baseline contribution rate that would fund the system using the Board’s assumptions adopted on January 21, 2016 (and April 26, 2018 with respect to the rate-of-return assumption), and plan population and asset information as of December 31, 2019.

The ADEC rate for the fiscal year ending in 2022 is 38.70% of covered pay, which is greater than the appropriated rate of 36.44% from S.L. 2020-41 (House Bill 1218) for the fiscal year ending in 2021. Therefore, the amount appropriated from the General Fund will need to increase by \$1.7 million from the amount appropriated for the fiscal year ending in 2021 to meet the new ADEC for the fiscal year ending in 2022.

Policy Option for Consideration by the Board of Trustees. Recommend the legislature increase the appropriation to 38.70% of covered pay, representing the sum of the “normal contribution” and the “accrued liability contribution” as described in G.S. § 135-69. This amount is an increase of \$1.7 million from the amount appropriated from the General Fund for the fiscal year ending in 2021 under S.L. 2020-41. **Staff Recommendation.**

Decisions on Legislative Retirement System (LRS)

Issue. G.S. 120-4.20(a) provides that “the State shall contribute annually an amount equal to the sum of the ‘normal contribution’ and the ‘accrued liability contribution.’” G.S. 120-4.20(e) provides that “the normal contribution rate and the accrued liability contribution rate shall be determined after each annual valuation of the Retirement System and shall remain in effect until a new valuation is made.”

The most recent valuation report shows the recommended actuarially determined employer contribution (ADEC) rate for the fiscal year ending in 2022. The ADEC is the mathematical baseline contribution rate that would fund the system using the Board’s assumptions adopted on January 21, 2016 (and April 26, 2018 with respect to the rate-of-return assumption), and plan population and asset information as of December 31, 2019. It consists of a normal contribution rate and an accrued liability contribution rate.

The ADEC rate for the fiscal year ending in 2022 is 27.15% of covered pay, which is less than the appropriated rate of 27.30% from S.L. 2020-41 (House Bill 1218) for the fiscal year ending in 2021. Therefore the amount appropriated from the General Fund could decrease by \$5,430, while still meeting the ADEC for the fiscal year ending in 2022.

Policy Option for Consideration by the Board of Trustees. Recommend the legislature set an appropriation equal to at least 27.15% of covered pay, representing the sum of the “normal contribution” and the “accrued liability contribution” as described in G.S. 120-4.20. Based on the contribution rate of 27.15%, the appropriation from the General Fund would decrease by \$5,430 from the amount appropriated from the General Fund for the fiscal year ending in 2021 under S.L. 2020-41. **Staff Recommendation.**

Decisions on the Disability Income Plan of North Carolina (DIPNC)

Issue. The most recent valuation report shows the recommended actuarially determined contribution (ADC) rate for the fiscal year ending in 2022. The ADC is the mathematical baseline contribution rate that would fund the system using the Board's assumptions adopted on January 21, 2016, and plan population and asset information as of December 31, 2019.

The ADC rate for the fiscal year ending in 2022 is 0.09% of covered pay. This is the same as the appropriated rate of 0.09% from S.L. 2020-41 (House Bill 1218) for the fiscal year ending in 2021. Therefore the amount appropriated from the General Fund could remain unchanged, while still meeting the ADC for the fiscal year ending in 2022.

Policy Option for Consideration by the Board of Trustees. Recommend that the legislature set an appropriation equal to at least 0.09% of covered pay. Based on the contribution rate of 0.09%, the appropriation from the General Fund would remain the same as the amount appropriated from the General Fund for the fiscal year ending in 2021 under S.L. 2020-41. **Staff Recommendation.**

Decisions on the North Carolina National Guard Pension Fund (NCNGPF)

Issue. G.S. 127A-41(d) provides that an actuarially determined employer contribution (ADEC) rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.” G.S. 127A-41(e) provides that “the Board of Trustees may adopt a contribution policy that would recommend a contribution not less than the [ADEC].” G.S. 127A-41(f) provides that “the recommended employer contribution rate by the Board of Trustees each year shall not be less than the [ADEC].”

ADEC: The most recent NCNGPF actuarial valuation report documents the recommended ADEC amount for the fiscal year ending in 2022. The ADEC is the mathematical baseline contribution that would fund the system using the Board’s assumptions and methods adopted on January 21, 2016 (and April 26, 2018 with respect to the rate-of-return assumption), and plan population and asset information as of December 31, 2019.

The ADEC for the fiscal year ending in 2022 is \$6,382,278. This ADEC is less than the appropriated employer contribution rate from S.L. 2020-41 (House Bill 1218) for the fiscal year ending in 2021, which is \$11,031,715.

Adjustment for Contribution Policy: The Board adopted the State Contribution Rate Stabilization Policy (SCRSP) on April 25, 2019. Under the SCRSP, the recommended State contribution for the upcoming fiscal year is the greater of (1) the State contribution that the Board recommended for the current fiscal year and (2) the ADEC plus \$2 million. Both items (1) and (2) are subject to adjustment related to funding benefit improvements.

For the fiscal year ending in 2022, item (1) is equal to the contribution that the Board recommended for the fiscal year ending in 2021, or \$11,031,715.

For the fiscal year ending in 2022, the ADEC is \$6,382,278, so item (2) is that amount plus \$2,000,000, or \$8,382,278.

Therefore, the SCRSP results in a recommended state contribution of \$11,031,715 for the fiscal year ending in 2022, which is the greater of item (1) or item (2), based on current benefit levels. This is equal to the amount that was appropriated for the fiscal year ending in 2021 under S.L. 2020-41.

The funding level, measured by Cavanaugh Macdonald Consulting as of December 31, 2019, was 88.1%.

Policy Option for Consideration by the Board of Trustees. Recommend the legislature maintain the appropriation at \$11,031,715, based on current benefit levels. The General Fund appropriation would remain the same as for the fiscal year ending in 2021. **Staff Recommendation.**

Decisions on the Death Benefit Plans

Death Benefit Plan for Members of TSERS

Issue. The actuarial valuation of the Death Benefit Plan for members of TSERS as of December 31, 2019, shows that the plan has liabilities of \$169,651,732. Against these liabilities, the plan has current assets of \$58,812,369. Prospective contributions by the state based on a contribution rate equal to 0.16% of covered pay have a present value of \$256,670,319. The present and prospective assets, which amount to \$315,482,688, exceed the liabilities of \$169,651,732 by \$145,830,956.

Policy Option for Consideration by the Board of Trustees. Recommend no change to the current contribution rate or benefit structure. ***Making no recommendation does not require a vote of the Board.***

Separate Insurance Benefit Plan for Law Enforcement Officers

Issue. The actuarial valuation of the Separate Insurance Benefits Plan for Law Enforcement Officers as of December 31, 2019, shows that the plan has liabilities of \$37,917,284. Against these liabilities, the plan has current assets of \$59,136,649. Since current assets are more than adequate to support the benefits, the contributions to the plan could continue to be suspended or benefits could be improved.

Policy Option for Consideration by the Board of Trustees. Recommend no change to the current benefit structure and do not request additional appropriations. ***Making no recommendation does not require a vote of the Board.***

Retirees' Contributory Death Benefit Plan

Issue. Benefits payable under the Retirees' Contributory Death Benefit Plan are supported entirely by the contributions of the participants and the investment earnings on those contributions. The actuarial valuation as of December 31, 2019, shows that the plan has liabilities of \$1,266,494,557. Against these liabilities, the plan has current assets of \$271,691,476. Prospective contributions of participants eligible for benefits have a value of \$967,643,306. The total present and prospective benefits amount to \$1,239,334,782, which are less than the liabilities of \$1,266,494,557 by \$27,159,775. Based on the assumptions of the actuarial valuation, the current assets and contribution rates of the plan are not adequate with the current plan provisions and contribution rates. Further consideration could be given based on the results of future actuarial valuations and experience studies.

Policy Option for Consideration by the Board of Trustees. Recommend no change to the current premiums, interest rate on return of contributions or benefit structure. ***Making no recommendation does not require a vote of the Board.***

**Summary of Alternatives
For Presentation to the 2021 General Assembly**

Retirement System	Employer Contributions	Enhance Benefits
Teachers' and State Employees' Retirement System	Increase employer contribution rate ¹ by 0.96% for a cost to the General Fund of \$107,197,162 and to the Highway Fund of \$3,157,872	No undistributed gain available for benefit enhancements
Consolidated Judicial	Increase employer contribution rate ² by 2.26% for a cost to the General Fund of \$1,745,466	No undistributed gain available for benefit enhancements
Legislative	Decrease employer contribution rate ³ by 0.15% for a reduction in contributions totaling \$5,430 from the General Fund	No undistributed gain available for benefit enhancements
Disability Income Plan	Maintain employer contribution rate at current level (0.09% of pay) ⁴	N/A
National Guard	Maintain employer contribution ⁵ at current level (\$11,031,715)	Benefit enhancement not recommended at current contribution level
Death Benefit Plans	No change	No change

FOOTNOTES:

¹The total appropriated employer contribution rate for fiscal year ending June 30, 2021, is 14.78%. For the fiscal year ending June 30, 2022, the Board's Employer Contribution Rate Stabilization Policy calls for a contribution rate equal to the actuarially determined rate of 15.74%. The estimated payrolls for the 2020 Session of the General Assembly were \$11,166,371,000 for the General Fund and \$328,945,000 for the Highway Fund.

²The total appropriated employer contribution rate for fiscal year ending June 30, 2021 is 36.44%. For the fiscal year ending June 30, 2022, the actuarially determined contribution rate is 38.70%. The estimated payroll for the 2020 Session of the General Assembly was \$77,233,000.

³The total appropriated employer contribution rate for fiscal year ending June 30, 2021 is 27.30%. For the fiscal year ending June 30, 2022, the actuarially determined contribution rate is 27.15%. The estimated payroll for the 2020 Session of the General Assembly was \$3,620,000.

⁴The total appropriated employer contribution rate for fiscal year ending June 30, 2021 is 0.09%. For the fiscal year ending June 30, 2022, the actuarially determined contribution rate is 0.09%. The estimated payrolls for the 2020 Session of the General Assembly were \$12,527,749,000 for the General Fund and \$328,945,000 for the Highway Fund.

⁵The total appropriated employer contribution for fiscal year ending June 30, 2021 is \$11,031,715. For the fiscal year ending June 30, 2022, the Board's State Contribution Rate Stabilization Policy calls for a contribution equal to \$11,031,715 if there are no recommended or enacted benefit enhancements.