

**Board Adoptions Prior to Decisions:
Discount Rate of 7.25%
Mortality Improvement Scale of MP-2015
Employer Contribution Rate Stabilization Policy - Yes**

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

Issue: Based on assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) of 8.47 percent is less than the state budget of 9.15 percent for fiscal year ending 2016. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2017 would be 9.48 percent, greater than the state budget of 9.15 percent for fiscal year ending 2016. *Therefore, the state budget allocated from the General Fund will need to increase by at least \$32.7 million to meet the ARC using proposed assumptions from the experience study, as modified for MP-2015.*

Further, the Board adopted the Employer Contribution Rate Stabilization Policy on January 21, 2016. Under this approach, contributions will be 0.35% of payroll greater than the appropriated contribution from the prior fiscal year, with the following bounds: (1) Contributions may not be less than the ARC determined using the assumptions adopted based on the experience study, including a discount rate of 7.25%; and (2) contributions may not be greater than the ARC determined using the assumptions adopted based on the experience study 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 9.50% of payroll for fiscal year ending 2017, since this would be the minimum contribution after an increase of 0.35% to the prior appropriated contribution rate of 9.15%, which is greater than the 9.48% ARC determined during the experience study.

Three Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the Employer Contribution Rate Stabilization Policy:

Recommend the legislature increase the appropriation to 9.50 percent. The additional appropriation needed from the General Fund would be \$34.7 million.

Option Two – Recommend an Increase to Current Appropriation to Fund the Employer Contribution Rate Stabilization Policy and a 1% COLA:

Recommend the legislature increase the appropriation to 9.92 percent. This would cover the Employer Contribution Rate Stabilization Policy and a 1% COLA. The COLA would produce, on average, a \$17 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$417.0 million.

Option Three – Recommend an Increase to Current Appropriation to Fund the Employer Contribution Rate Stabilization Policy, Increase Multiplier for Active Employees, and a Corresponding Increase for All Beneficiaries:

Recommend the legislature increase the appropriation to 9.93 percent. This would cover the Employer Contribution Rate Stabilization Policy and increase benefits for current active employees with an equivalent increase to all beneficiaries. The accrual rate would increase from 1.82 percent to 1.83 percent with a corresponding 0.55 percent increase to all beneficiaries. The total amount to be funded over time for the increased multiplier for current employees and corresponding COLA to all beneficiaries is the increase in liability of \$432.4 million. The additional cost for future hires is 0.07 percent of pay.



Prepared by Staff of the Retirement Systems Division,
Office of the State Treasurer
January 21, 2016

**Board Adoptions Prior to Decisions:
Discount Rate of 7.25%
Mortality Improvement Scale of MP-2015
Employer Contribution Rate Stabilization Policy - No**

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

Issue: Based on assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) of 8.47 percent is less than the state budget of 9.15 percent for fiscal year ending 2016. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2017 would be 9.48 percent, greater than the state budget of 9.15 percent for fiscal year ending 2016. *Therefore, the state budget allocated from the General Fund will need to increase by at least \$32.7 million to meet the ARC using proposed assumptions from the experience study, as modified for MP-2015.*

Three Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions:

Recommend the legislature increase the appropriation to 9.48 percent. The additional appropriation needed from the General Fund would be \$32.7 million.

Option Two – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions and a 1% COLA:

Recommend the legislature increase the appropriation to 9.90 percent. This would cover the ARC based on the approved experience study assumptions and a 1% COLA. The COLA would produce, on average, a \$17 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$417.0 million.

Option Three – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions, Increase Multiplier for Active Employees, and a Corresponding Increase for All Beneficiaries:

Recommend the legislature increase the appropriation to 9.91 percent. This would cover the ARC based on the approved experience study assumptions and increase benefits for current active employees with an equivalent increase to all beneficiaries. The accrual rate would increase from 1.82 percent to 1.83 percent with a corresponding 0.55 percent increase to all beneficiaries. The total amount to be funded over time for the increased multiplier for current employees and corresponding COLA to all beneficiaries is the increase in liability of \$432.4 million. The additional cost for future hires is 0.07 percent of pay.



Prepared by Staff of the Retirement Systems Division,
Office of the State Treasurer
January 21, 2016

Decisions on Consolidated Judicial Retirement System (CJRS)

Issue: Based on assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) of 25.09 percent is less than the state budget of 27.21 percent for fiscal year ending 2016. Please note that subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2017 would be 28.53 percent, greater than the state budget of 27.21 percent for fiscal year ending 2016. *Therefore, the state budget allocated from the General Fund will need to increase by at least \$937,200 to meet the ARC using proposed assumptions from the experience study, as modified for MP-2015.*

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions:

Recommend the legislature increase the appropriation to 28.53 percent. The additional appropriation needed from the General Fund would be \$937,200.

Option Two – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions and a 1% COLA:

Recommend the legislature increase the appropriation to 29.27 percent. The additional appropriation needed from the General Fund would be \$525,400 for a 1% COLA in addition to an appropriation of \$937,200 for the ARC for a total additional appropriation of \$1,462,600. This would cover the ARC and a 1% COLA. The COLA would produce, on average, a \$51 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$3.9 million.



Decisions on Legislative Retirement System (LRS)

Issue: The most recent valuation report shows that the new Annual Required Contribution (ARC) of 0.46 percent is less than the state budget of 1.80 percent for fiscal year ending 2016. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2017 would be 17.05 percent, greater than the state budget appropriated rate of 1.80 percent for fiscal year ending 2016. *Therefore, the state budget allocated from the General Fund will need to increase by at least \$552,050 to meet the ARC using proposed assumptions from the experience study, as modified for MP-2015.*

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions:

Recommend the legislature increase the appropriation to 17.05 percent. The additional appropriation needed from the General Fund would be \$552,050.

Option Two – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions and a 1% COLA:

Recommend the legislature increase the appropriation to 17.91 percent. The additional appropriation needed from the General Fund would be \$31,132 for a 1% COLA in addition to \$552,050 appropriation for the ARC for a total additional appropriation of \$583,182. This would cover the ARC and a 1% COLA. The COLA would produce, on average, a \$7 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$0.2 million.

Decisions on North Carolina National Guard Pension Fund

Issue: Based on assumptions adopted in 2010, the most recent valuation report shows that the new Annual Required Contribution (ARC) of \$6,922,083 is less than the state budget of \$7,066,299 for fiscal year ending 2016. However, subsequent to the valuation report, an experience study has been performed. Based on the proposed assumptions from the experience study adjusted to reflect the latest mortality projection scale (MP-2015), the Annual Required Contribution (ARC) for fiscal year ending 2017 would be \$8,517,073, greater than the state budget of \$7,066,299 for fiscal year ending 2016. *Therefore, the state budget allocated from the General Fund will need to increase by at least \$1,450,774 to meet the ARC using proposed assumptions from the experience study, as modified for MP-2015.*

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ARC Based on Approved Experience Study Assumptions:

Recommend the legislature increase the appropriation to \$8,517,073. The additional appropriation needed from the General Fund would be \$1,450,774

Option Two – Recommend an Increase to Current Appropriations of \$2 million above the ARC Based on Approved Experience Study Assumptions to Improve the Funded Status:

Recommend the legislature increase the appropriation to \$10,517,073. This increase would provide for an accelerated payment schedule that would pay off the unfunded liability on this pension plan in about six 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 \$3,450,774.

**SUMMARY OF ALTERNATIVES
FOR PRESENTATION TO THE 2016 GENERAL ASSEMBLY**

<u>Retirement System</u>	<u>Employer Contributions</u>	<u>Enhance Benefits</u>
Teachers' and State Employees'	Increase employer contribution rate ¹ by 0.33% for a cost in the first year to the General Fund of \$32,716,200 and to the Highway Fund of \$1,039,500 ⁵	No undistributed gain available for benefit enhancements
Consolidated Judicial	Increase employer contribution rate ² by 1.32% for a cost in the first year to the General Fund of \$937,200	No undistributed gain available for benefit enhancements
Legislative	Increase employer contribution rate ³ by 15.25% for a cost in the first year to the General Fund of \$552,050	No undistributed gain available for benefit enhancements
National Guard	Increase employer contribution ⁴ by \$1,450,774	No undistributed gain available for benefit enhancements

FOOTNOTES:

¹The total appropriated employer contribution rate for fiscal year ending June 30, 2016 is 9.15%. The estimated payrolls for the 2015 Session of the General Assembly were \$9,914,000,000 for the General Fund and \$315,000,000 for the Highway Fund.

²The total appropriated employer contribution rate for fiscal year ending June 30, 2016 is 27.21%. The estimated payroll for the 2015 Session of the General Assembly was \$71,000,000.

³The total appropriated employer contribution rate for fiscal year ending June 30, 2016 is 1.80%. The estimated payroll for the 2015 Session of the General Assembly was \$3,620,000.

⁴The total appropriated employer contribution for fiscal year ending June 30, 2016 is \$7,066,299.

⁵Note that under the Employer Contribution Rate Stabilization Policy, the employer contribution rate increases by 0.35% instead of 0.33%, resulting in a cost in the first year to the General Fund of \$34,699,000 and to the Highway Fund of \$1,102,500.

**TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
COST OF CERTAIN BENEFIT CHANGES AFFECTING
FISCAL YEAR ENDING JUNE 30, 2017 BUDGET**

<u>Benefit Changes</u>	Percentage Payroll¹	Appropriation 2016-17	
		General Fund²	Highway Fund³
<u>Post-Retirement Increases</u>			
Each 1% increase to Beneficiaries as of July 1, 2015 payable beginning July 1, 2016 and prorated percentage to 2015-16 Beneficiaries	0.42% ⁴	\$ 41,638,800	\$ 1,323,000
<u>Enhance Benefit Structure</u>			
Each 0.01% increase in the defined benefit formula accrual rate from current 1.82% with a 0.55% increase to all Beneficiaries	0.43% ⁵	\$ 42,630,200	\$ 1,354,500

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2016 is 9.15% of covered members' payroll and the accrued liability liquidation period is 12 years. This means that the benefits described above will be fully funded after paying the respective percentage of payroll for approximately 12 years.

²Assumes General Fund payroll of covered members at \$9,914,000,000.

³Assumes Highway Fund payroll of covered members at \$315,000,000.

⁴The total amount to be funded over time is the increase in liability of \$417.0 million.

⁵The total amount to be funded over time is the increase in liability of \$432.4 million. The additional cost for future hires is 0.07 percent of pay.

**CONSOLIDATED JUDICIAL RETIREMENT SYSTEM
 COST OF CERTAIN BENEFIT CHANGES AFFECTING
 FISCAL YEAR ENDING JUNE 30, 2017 BUDGET**

	Percentage Payroll¹	Appropriation 2016-17 <u>General Fund</u>²
<u>Benefit Changes</u>		
<u>Post-Retirement Increases</u>		
Each 1% increase to Beneficiaries as of July 1, 2015 payable beginning July 1, 2016 and prorated percentage to 2015-16 Beneficiaries	0.74% ³	\$525,400

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2016 is 27.21% of covered members' payroll and the accrued liability liquidation period is 12 years. This means that the benefits described above will be fully funded after paying the respective percentage of payroll for approximately 12 years.

²Assumes General Fund payroll of covered members at \$71,000,000.

³The total amount to be funded over time is the increase in liability of \$3.9 million.

**LEGISLATIVE RETIREMENT SYSTEM
 COST OF CERTAIN BENEFIT CHANGES AFFECTING
 FISCAL YEAR ENDING JUNE 30, 2017 BUDGET**

	Percentage Payroll¹	Appropriation 2016-17 <u>General Fund</u>²
<u>Benefit Changes</u>		
<u>Post-Retirement Increases</u>		
Each 1% increase to Beneficiaries as of July 1, 2015 payable beginning July 1, 2016 and prorated percentage to 2015-16 Beneficiaries	0.86% ³	\$31,132

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2016 is 1.80% of covered members' payroll and the accrued liability liquidation period is 12 years. This means that the benefits described above will be fully funded after paying the respective percentage of payroll for approximately 12 years.

²Assumes General Fund payroll of covered members at \$3,620,000.

³The total amount to be funded over time is the increase in liability of \$0.2 million.