



**North Carolina**  
Total Retirement Plans



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

**Issue.** The most recent TSERS actuarial valuation report documents the recommended Actuarially Determined Employer Contribution (ADEC) rate for the fiscal year ending in 2021. 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, including direct rate smoothing of that change). It uses plan population and asset information as of December 31, 2018.

The ADEC rate for the fiscal year ending in 2021 is 14.78% of covered pay. This ADEC is greater than the appropriated employer contribution rate from S.L. 2019-209 (House Bill 226) for the fiscal year ending in 2020, which is 12.97% of covered pay.

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 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 2020 is 12.97%. The ECRSP would indicate an employer contribution rate of 13.32% percent for FY 2020 (equal to 12.97% plus 0.35%), subject to the lower bound of the ADEC rate (14.78%) and the upper bound equal to the ADEC-type calculation using a long-term Treasury discount rate (approximately 63.80%). Therefore, the recommended employer contribution rate is equal to the ADEC, 14.78% 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 \$199.9 million from the amount appropriated for the fiscal year ending in 2020. Of that amount, an increase of \$153.5 million to the appropriation for the fiscal year ending in 2021 was already enacted through S.L. 2019-209, leaving an increase of \$46.4 million not yet enacted.

**Cost of Living Adjustment (COLA).** Based on the actuarial losses recognized in this December 31, 2018, valuation, no Cost-of-Living Adjustment (COLA) effective July 1, 2020, could be funded by actuarial gains. In their presentation to the Board in October 2019, Cavanaugh Macdonald Consulting LLC estimated that a potential COLA effective July 1, 2021, could be funded by actuarial investment gains following the December 31, 2019, valuation as follows:

1. If calendar year 2019 market value returns exceed 19.2% (or about \$12.7 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 2019 market value returns exceed 23.0% (or about \$15.3 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, 2019, valuation.

**Policy Option for Consideration by the Board of Trustees.** Recommend the legislature increase the appropriation to 14.78%, to cover the “required employer contribution” described in G.S. § 135-8(d)(3a). This amount is an increase of \$199.9 million from the amount appropriated from the General Fund for the fiscal year ending in 2020 under S.L. 2019-209, and is an increase of \$46.4 million from the amount appropriated for the fiscal year ending in 2021.<sup>1</sup> **Staff Recommendation.**

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<sup>1</sup> As illustrated in the footnotes to the “Summary” page of this document, the approximate dollar amounts for appropriations effective July 1, 2020, are estimated using the “Estimated State Payrolls for Retirement Appropriations Purposes for the 2019 Session of the North Carolina General Assembly,” set forth in a letter from the Director of the Retirement Systems to the State Budget Director and the Director of the Fiscal Research Division of the General Assembly, dated May 3, 2019. For example, the approximate increase in appropriations from the General Fund (\$199.9 million) is estimated as \$11,045,719,000 (the TSERS payroll derived from General Fund appropriations, from the aforementioned memo) times 1.81% (14.78% minus 12.97%). Once a similar payroll letter is finalized for the 2020 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.** The most recent valuation report shows the recommended Actuarially Determined Employer Contribution (ADEC) rate for the fiscal year ending in 2021. 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, including direct rate smoothing of that change). It uses plan population and asset information as of December 31, 2018.

The ADEC rate for the fiscal year ending in 2021 is 36.44% of covered pay, which is greater than the appropriated rate of 33.60% for the fiscal year ending in 2020. Therefore, the state budget appropriated from the General Fund will need to increase by \$2.1 million from the amount appropriated for the fiscal year ending in 2020 to meet the new ADEC for the fiscal year ending in 2021. Of that amount, an increase of \$1.8 million in the appropriation for the fiscal year ending in 2021 was already enacted through S.L. 2019-209 (House Bill 226), leaving an increase of \$0.3 million not yet enacted.

**Policy Option for Consideration by the Board of Trustees.** Recommend the legislature increase the appropriation to 36.44% 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 \$2.1 million from the amount appropriated from the General Fund for the fiscal year ending in 2020 under S.L. 2019-209, and is an increase of \$0.3 million from the amount appropriated for the fiscal year ending in 2021 under S.L. 2019-209. **Staff Recommendation.**

## Decisions on Legislative Retirement System (LRS)

**Issue.** The most recent valuation report shows the recommended Actuarially Determined Employer Contribution (ADEC) rate for the fiscal year ending in 2020. 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 including direct rate smoothing of that change). It uses plan population and asset information as of December 31, 2018.

The ADEC rate for the fiscal year ending in 2021 is 27.30% of covered pay, which is greater than the appropriated rate of 26.46% for the fiscal year ending in 2020. Therefore the state budget allocated from the General Fund will need to increase by \$30,408 to meet the new ADEC for the fiscal year ending in 2020. However, an increase of \$91,948 in the appropriation for the fiscal year ending in 2021 was already enacted through S.L. 2019-209 (House Bill 226), meaning that the amount already appropriated for the fiscal year ending in 2021 could decrease by \$61,540 while still satisfying the ADEC.

**Policy Option for Consideration by the Board of Trustees.** Recommend the legislature set an appropriation equal to at least 27.30% of covered pay, representing the sum of the "normal contribution" and the "accrued liability contribution" as described in G.S. § 120-4.20. This amount is an increase of \$30,408 from the amount appropriated from the General Fund for the fiscal year ending in 2020 under S.L. 2019-209, and is a decrease of \$61,540 from the amount appropriated for the fiscal year ending in 2021 under S.L. 2019-209. **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 2020. The ADC is the mathematical baseline contribution rate that would fund the system using the Board's assumptions adopted on January 21, 2016. It uses plan population and asset information as of December 31, 2018.

The ADC rate for the fiscal year ending in 2021 is 0.09% of covered pay. This is less than the rate of 0.10% that was appropriated for both the fiscal year ending in 2020 and the fiscal year ending in 2021 under S.L. 2019-209 (House Bill 226). The General Assembly could reduce the contribution rate for the fiscal year ending in 2021, while still satisfying the ADC. Therefore the state budget appropriated from the General Fund may decrease by approximately \$1.2 million to meet the new ADC for the fiscal year ending in 2021.

Benefit enhancements are not being considered at this time.

**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. The appropriation from the General Fund would decrease by \$1.2 million based on the contribution rate of 0.09%. **Staff Recommendation.**

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

**Issue.** 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 Actuarially Determined Employer Contribution (ADEC) plus \$2 million. Both items (1) and (2) are subject to adjustment related to funding benefit improvements.

For the fiscal year ending in 2021, item (1) is equal to the contribution that the Board recommended for the fiscal year ending in 2020, or \$11,031,715.

For the fiscal year ending in 2021, the actuarially determined contribution is \$7,794,373, so that item (2) is that amount plus \$2,000,000, or \$9,794,373. The ADEC is the mathematical baseline contribution amount 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, including direct rate smoothing of that change). It uses plan population and asset information as of December 31, 2018.

Therefore, the SCRSP results in a recommended state contribution of \$11,031,715 for the fiscal year ending in 2021, 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 both the fiscal year ending in 2020 and the fiscal year ending in 2021 under S.L. 2019-209 (House Bill 226).

The funding level, measured by Cavanaugh Macdonald Consulting as of December 31, 2018, was 78.0%.

**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 2020. **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, 2018, shows that the plan has liabilities of \$171,546,221. Against these liabilities, the plan has current assets of \$49,315,169. Prospective contributions by the state based on a contribution rate equal to 0.16% of covered pay have a present value of \$249,985,503. The present and prospective assets, which amount to \$299,300,672, exceed the liabilities of \$171,546,221 by \$127,754,451.

**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, 2018, shows that the plan has liabilities of \$36,828,878. Against these liabilities, the plan has current assets of \$55,376,104. 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, 2018, shows that the plan has liabilities of \$1,239,353,244. Against these liabilities, the plan has current assets of \$253,125,884. Prospective contributions of participants eligible for benefits have a value of \$950,763,602. The total present and prospective benefits amount to \$1,203,889,486, which are less than the liabilities by \$35,463,758. 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 2020 General Assembly**

<b>Retirement System</b>	<b>Employer Contributions</b>	<b>Enhance Benefits</b>
Teachers' and State Employees' Retirement System	Increase employer contribution rate <sup>1</sup> by 1.81% for a cost to the General Fund of \$199,927,514 and to the Highway Fund of \$6,196,843	No undistributed gain available for benefit enhancements
Consolidated Judicial	Increase employer contribution rate <sup>2</sup> by 2.84% for a cost to the General Fund of \$2,146,245	No undistributed gain available for benefit enhancements
Legislative	Increase employer contribution rate <sup>3</sup> by 0.84% for a cost to the General Fund of \$30,408	No undistributed gain available for benefit enhancements
Disability Income Plan	Decrease employer contribution rate by 0.01% of payroll for a reduction in contributions totaling approximately \$1.2 million from the General Fund <sup>4</sup>	N/A
National Guard	Maintain employer contribution <sup>5</sup> of \$11,031,715	Benefit enhancement not recommended at current contribution level
Death Benefit Plans	No change	No change

**FOOTNOTES:**

<sup>1</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2020, is 12.97%. For the fiscal year ending June 30, 2021, the Board's Employer Contribution Rate Stabilization Policy calls for a contribution rate equal to the actuarially determined rate of 14.78%, and S.L. 2019-209 (House Bill 226) has appropriated a contribution rate of 14.36%. The estimated payrolls for the 2019 Session of the General Assembly were \$11,045,719,000 for the General Fund and \$342,367,000 for the Highway Fund.

<sup>2</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2020 is 33.60%. For the fiscal year ending June 30, 2021, the actuarially determined contribution rate is 36.44%, and S.L. 2019-209 has appropriated a contribution rate of 36.00%. The estimated payroll for the 2019 Session of the General Assembly was \$75,572,000.

<sup>3</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2020 is 26.46%. For the fiscal year ending June 30, 2021, the actuarially determined contribution rate is 27.30%, and S.L. 2019-209 has appropriated a contribution rate of 29.00%. The estimated payroll for the 2019 Session of the General Assembly was \$3,620,000.

<sup>4</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2020 is 0.10%. For the fiscal year ending June 30, 2021, the actuarially determined contribution rate is 0.09%, and S.L. 2019-209 has appropriated a contribution rate of 0.10%. The estimated payrolls for the 2019 Session of the General Assembly were \$12,296,175,000 for the General Fund and \$342,367,000 for the Highway Fund.

<sup>5</sup>The total appropriated employer contribution for fiscal year ending June 30, 2020 is \$11,031,715. For the fiscal year ending June 30, 2021, 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, and S.L. 2019-209 has appropriated a contribution of \$11,031,715.