GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2019

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HOUSE BILL 626
PROPOSED COMMITTEE SUBSTITUTE H626-PCS40449-TV-13

Short Title: Realistic Evaluation of Actuarial Liabilities. (Public)

Sponsors:

Referred to:

April 8, 2019

A BILL TO BE ENTITLED

AN ACT TO REQUIRE STRESS TESTING FOR THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, AS RECOMMENDED BY THE PEW FOUNDATION; TO MAKE AMENDMENTS RELATED TO THE PENSION SOLVENCY FUND; TO MAKE AMENDMENTS TO SUBROGATION AND THE RIGHT OF RECOVERY OF THE NORTH CAROLINA STATE HEALTH PLAN FOR TEACHERS AND STATE EMPLOYEES; AND TO CLARIFY THE LIEN PRIORITY OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AS IT PERTAINS TO CHARTER SCHOOL PAYMENT PLANS.

The General Assembly of North Carolina enacts:

SECTION 1.(a) G.S. 135-6(n) reads as rewritten:

"(n) In 1943, and at least once in each five-year period thereafter, the actuary shall ~~make~~ complete an actuarial ~~investigation into~~ experience review of the mortality, service and compensation experience of the members and beneficiaries of the Retirement System, and shall make a valuation of the assets and liabilities of the funds of the System, and taking into account the result of such investigation and valuation, the Board of Trustees ~~shall:~~shall do all of the following:

(1) Adopt for the Retirement System such mortality, service and other tables as shall be deemed ~~necessary; and~~necessary.

(2) Certify the rates of contributions payable by the State of North Carolina on account of new entrants at various ages."

SECTION 1.(b) G.S. 135-6 is amended by adding two new subsections to read:

"(n1) Prior to undertaking each quinquennial actuarial experience review as required by this section, the Board of Trustees shall provide the General Assembly and the Governor a report that includes all of the following, as these items apply to the Retirement System:

(1) A description of and the process used to determine the investment return assumption utilized by the Board of Trustees when determining the contribution rates.

(2) Projections of assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the Retirement System for each of the next 30 years based upon the then-current actuarial assumptions, including the assumed rate of return.

(3) Projections of assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the Retirement System assuming that investment

returns are two and four percentage points lower than the assumed rate of return and that the State makes employer contributions meeting all of the following:

a. The contributions are based upon the then-current funding policy for the Retirement System.

b. The contributions are held constant at the levels calculated for subdivision (2) of this subsection.

c. The contributions never exceed fifteen percent (15%) of projected total revenue available for appropriation by the General Assembly.

(4) Estimates for assets, liabilities, pension debt, service costs, employee contributions, employer contributions, net amortization, benefit payments, payroll, and funded ratio for the Retirement System if there is a one-year loss on planned investments of twenty percent (20%) followed by a 20-year period of investment returns two percentage points below plan assumptions, with the following assumptions regarding contributions:

a. The contributions are based upon the then-current funding policy for the Retirement System.

b. The contributions are held constant at the levels calculated for subdivision (2) of this subsection.

c. The contributions never exceed fifteen percent (15%) of projected total revenue available for appropriation by the General Assembly.

(5) The estimated actuarially accrued liability, the total plan normal cost for all benefit tiers, if multiple tiers exist, and the employer normal cost for all benefit tiers, if multiple tiers exist, calculated using all of the following:

a. A discount rate equal to the assumed rate of return. If the discount rate used by the Retirement System is different from the investment return assumption, then the report shall provide a calculation of actuarially accrued liability based upon a discount rate that is two percent (2%) and four percent (4%) above and below the long-term rate of return actually used by the Board of Trustees.

b. The 10-year average of the yield of 30-year treasury notes.

(6) A description of the amortization period for any unfunded liabilities utilized by the Board of Trustees when determining the contribution rates.

(7) A calculation of the contribution rates based on an amortization period equal to the estimated average remaining service periods of employees covered by the contributions.

(8) A description of the interest assumption rate utilized by the Board of Trustees for reporting liabilities and the process used to determine that assumption.

(9) The market value of the assets controlled by the Board of Trustees and an explanation of how the actuarial value assigned to those assets differs from the market value of those assets.

(10) An assessment of how the changes of assumptions adopted by the Board of Trustees in the experience review affect any of the other results in the report.

(11) Any additional information deemed useful by the Board of Trustees or the Investment Advisory Committee under G.S. 147-69.2 to evaluate or adjust the investment policy statement or to evaluate adherence to or risk associated with statutory constraints on investments.

(12) Any additional information deemed useful by the Board to evaluate current or prospective funding or contribution policies.

(n2) With regards to payment for the administration of subsections (n), (n1), and (o) of this section, the Retirement Systems Division of the Department of State Treasurer may increase receipts from the retirement assets of the corresponding retirement system or may pay the costs directly from the retirement assets."

SECTION 2. G.S. 143C-4-10(c) is amended by adding a new subdivision to read:

"(3) Any funds, in an amount directed by the State Treasurer to be transferred, that meet all of the following criteria:

a. The funds are the result of rebates received by the Department of State Treasurer from a company administering supplemental voluntary insurance benefits authorized under G.S. 120-4.32(b), 128-38.3(b), 135-18.8(b), or 135-75(b).

b. The funds are not owed to a company administering, or individuals participating in, supplemental voluntary insurance benefits.

c. As determined by the Board of Trustees of the Retirement System, the funds are not to be needed to pay future administrative costs of the supplemental voluntary insurance benefits."

SECTION 3. G.S. 135-48.5(a) reads as rewritten:

"(a) There are hereby established two health benefit trust funds, to be known as the Public Employee Health Benefit Fund and the Health Benefit Reserve Fund for the payment of hospital and medical benefits. As used in this section, the term "health benefit trust funds" refers to the fund type described under G.S. 143C-1-3(a)(10).

All premiums, fees, charges, rebates, refunds or any other receipts including, but not limited to, earnings on investments, occurring or arising in connection with health benefits programs established by this Article, shall be deposited into the Public Employee Health Benefit Fund. Disbursements from the Fund shall include any and all amounts required to pay the benefits and administrative costs of such programs as may be determined by the Executive Administrator and Board of Trustees.

Any unencumbered balance in excess of prepaid premiums or charges in the Public Employee Health Benefit Fund at the end of each fiscal year shall be used ~~first,~~ in the following order:

(1) First, to provide an actuarially determined Health Benefit Reserve Fund for incurred but unpresented ~~claims, second,~~ claims.

(2) Second, an amount determined by the State Treasurer, subject to approval by the Board of Trustees, that does not exceed fifty percent (50%) of any unencumbered balance remaining after providing for incurred but unpresented claims may be transferred to the Retiree Health Benefit Fund, established under G.S. 135-7(f). Upon the direction and approval of, and in the amount specified by, the State Treasurer, the Office of State Budget Management shall transfer the amount in accordance with this subdivision.

(3) Third, to reduce the premiums required in providing the benefits of the health benefits ~~programs, and third~~ programs.

(4) Fourth, to improve the plan, as may be provided by the ~~General Assembly.~~ State Treasurer, subject to approval by the Board of Trustees.

The balance in the Health Benefits Reserve Fund may be transferred from time to time to the Public Employee Health Benefit Fund to provide for any deficiency occurring therein. The Public Employee Health Benefit Fund and the Health Benefit Reserve Fund shall be deposited with the State Treasurer and invested as provided in G.S. 147-69.2 and G.S. 147-69.3."

SECTION 4. G.S. 143C-4-10 is amended by adding a new subsection to read:

"(g) Funds Do Not Revert. – No portion of the Fund shall be transferred to the General Fund and any appropriation made to the Fund shall not revert."

SECTION 5. Section 3(b) of Session Law 2018-84 reads as rewritten:

"**SECTION 3.(b)** This section is effective when it becomes law and applies to charter schools electing to cease participation in the Teachers' and State Employees' Retirement System on or after that date. Priority of the lien over nongovernmental liens and rights, created under subsection (a) of this section, shall apply only to nongovernmental liens and rights that have attached to the applicable property on or after the effective date of this section. This section expires June 14, 2023. Any charter school entering a withdrawal liability payment plan before June 14, 2023, shall have the full three years to complete the payment plan and the lien priority shall apply during the entire period of the payment plan."

SECTION 6. Except as otherwise provided, this act becomes effective July 1, 2019.