

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE  
RETIREMENT**

**BILL NUMBER:** Committee Substitute for House Bill 1000

**SHORT TITLE:** Modify Optional Retirement Program

**SPONSOR(S):** Representative Hackney

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System and Optional Retirement Program

**FUNDS AFFECTED:** General Fund and receipt funds.

**BILL SUMMARY:** Expands the eligibility of employees who would be able to chose between participation in the Teachers' & State Employees' Retirement System, a defined benefit plan, or the Optional Retirement Program, a defined contribution plan, to non-faculty instructional and research staff who are exempt from the State Personnel Act, as defined by the provisions of G. S. 126-5(c1)(8). This only applies to employees hired into those positions on or after August 1, 2003. This will expand the eligibility to about 2,276 additional positions that now are required to be members of the Teachers' & State Employees' Retirement System.

**EFFECTIVE DATE:** When it becomes law.

**ESTIMATED IMPACT ON STATE:** Both the actuary for the Teachers' and State Employees' Retirement System, Buck Consultants, and the actuary for the General Assembly agree that the cost to the Teachers' and State Employees' Retirement System is unknown at this time, since only those hired on or after August 1, 2003, would be eligible.

Both the actuary for the Teachers' and State Employees' Retirement System and the actuary for the General Assembly agree that over a long period of time, the cost could increase as the employees in these positions retire or terminate and new ones hired will have the choice between the two different plans. They think anti-selection to the State Retirement System will occur as a result of the younger employees, when first hired, electing to be in the Optional Retirement Program and the older employees electing to be in the Teachers' and State Employee's Retirement System.

The contribution rate for the Teachers' and State Employees' Retirement System is assumed to be .22% of salary for the 2003-04 and 2.05% of salary for the 2004-05 year. The contribution rate for the Optional Retirement Program is assumed to be 6.84% of salary for each year in the future. The cost, if any, can result because of the difference in the contribution rates of the two systems.

**ASSUMPTIONS AND METHODOLOGY: Teacher's & State Employees' Retirement System**

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2001, actuarial valuation of the fund. The data included 297,252 active members with an annual payroll of \$9.5 billion and 112,482 retired members in receipt of annual pensions totaling \$1.83 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the George B. Buck Mortality Tables for deaths in service and after retirement, and (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal

method with open-end unfunded accrued liability and a frozen unfunded liquidation period of nine years. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

**SOURCES OF DATA:** System Actuary - Buck Consultant, Inc.  
General Assembly Actuary - Hartman & Associates, LLC

**FISCAL RESEARCH DIVISION (919) 733-4910:** The above information is provided in accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives

**PREPARED BY:** Stanley Moore

**APPROVED BY:** James D. Johnson, Director, Fiscal Research Division

**DATE:** June 26, 2003



**Signed Copy Located in the NCGA Principal Clerk's Offices**