

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

**BILL NUMBER:** House Bill 1514 (First Edition)

**SHORT TITLE:** State Retirement COLA.

**SPONSOR(S):** Representatives Bell, Wilson and Hackney

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System.

**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Fund

**BILL SUMMARY:** Provides a post-retirement increase of 2.5% in the benefits of retirees of the Teachers' and State Employees' Retirement System.

**EFFECTIVE DATE:** July 1, 2004

**ESTIMATED IMPACT ON STATE:**

Retirement System Actuary: Mellon estimates the cost to be 0.78% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$59.7M	\$63.1M	\$66.7M	\$70.5M	\$74.6M
Highway Fund	\$ 3.0M	\$ 3.2M	\$ 3.3M	\$ 3.5M	\$ 3.7M
Receipt Funds	<u>\$ 20.5M</u>	<u>\$ 21.6M</u>	<u>\$22.9M</u>	<u>\$24.2M</u>	<u>\$25.6M</u>
<b>TOTAL COST</b>	<b>\$ 83.2M</b>	<b>\$ 87.9M</b>	<b>\$ 92.9M</b>	<b>\$ 98.3M</b>	<b>\$ 103.9M</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.73% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$55.8M	\$59.0M	\$62.4M	\$66.0M	\$69.8M
Highway Fund	\$ 2.8M	\$ 3.0M	\$ 3.1M	\$ 3.3M	\$ 3.5M
Receipt Funds	<u>\$19.2M</u>	<u>\$20.3M</u>	<u>\$21.4M</u>	<u>\$22.6M</u>	<u>\$23.9M</u>
<b>TOTAL COST</b>	<b>\$77.8M</b>	<b>\$82.3M</b>	<b>\$86.9M</b>	<b>\$91.9M</b>	<b>\$97.2M</b>

**There are actuarial gains in the System equal to .41% of payroll so the cost is .37% of payroll which requires an appropriation as follows:**

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$28.9M	\$30.7M	\$32.3M	\$34.2M	\$36.1M
Highway Fund	\$ 1.5M	\$ 1.5M	\$ 1.6M	\$ 1.7M	\$ 1.8M
Receipt Funds	<u>\$ 9.9M</u>	<u>\$ 10.5M</u>	<u>\$11.1M</u>	<u>\$11.7M</u>	<u>\$12.4M</u>
<b>TOTAL COST</b>	<b>\$ 40.3M</b>	<b>\$ 42.6M</b>	<b>\$45.0M</b>	<b>\$ 47.6M</b>	<b>\$ 50.3M</b>

**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, 2002 actuarial valuation of the fund. The data included 296,377 active members with an annual payroll of \$9.7 billion and 118,129 retired members in receipt of annual pensions totaling \$2 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 - Mellon.  
General Assembly Actuary - Hartman & Associates, LLC

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**DATE:** May 20, 2004



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