

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

**BILL NUMBER:** Senate Bill 1163 (First Edition)

**SHORT TITLE:** Reciprocity/Optional Retirement System

**SPONSOR(S):** Senator Stevens

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

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

**BILL SUMMARY:** Some positions in the university system give the employee the choice of participating in either the Teachers' & State Employees' Retirement System or the Optional Retirement Plan, which is a defined contribution plan whereby the employee contributes 6% of salary and the university contributes 6.84% of salary. In some instances, when an employee change jobs, the employee will no longer be eligible to participate in the Optional Retirement Plan, so over a career where the employee might change jobs several times, they could be members of both systems. This change will simply allow the Teachers' & State Employees' Retirement System to use any service the employee has worked and participated in the Optional Retirement Plan to determine if they qualify for benefits.

For example, an employee comes to work with the university and works ten years and is a member of the State System. Then, the employee changes jobs and now can elect to participate in the Optional Retirement Plan and does so for the next ten years. The employee terminates employment with a total of twenty years of service at age 55. Under present law, the employee cannot receive a benefit from the State System until age 60 (reduced) or age 65 (unreduced). This change would cause the System to look at the total of 20 years service and age 55 to determine the qualification of a reduced early retirement but the retirement benefit would be calculated only on the ten years of service in the State System.

**EFFECTIVE DATE:** July 1, 2004

**ESTIMATED IMPACT ON STATE:** Both, the Retirement System's actuary, Mellon, and the General Assembly's actuary, Hartman & Associates, estimates the cost to be somewhat less than .01% of the payroll of all members of the Teachers' and State Employees' Retirement System. Both actuaries realize the change would cost the System as a result of allowing employees to retire at a younger age than is allowed under the current law, but due to a lack of sufficient data of how many employees would be affected and the total service in the Optional Retirement Plan, they are not sure how much it will cost. The below cost is estimated to be the maximum annual cost.

	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
General Fund	\$0.765M	\$0.809M	\$0.855M	\$0.904M	\$0.955M
Highway Fund	\$0.038M	\$0.040M	\$0.043M	\$0.045M	\$0.048M
Receipt Funds	<u>\$0.262M</u>	<u>\$0.277M</u>	<u>\$0.293M</u>	<u>\$0.310M</u>	<u>\$0.327M</u>
TOTAL COST	\$1.065M	\$1.127M	\$1.191M	\$1.260M	\$1.332M

**ASSUMPTIONS AND METHODOLOGY: Teachers' & 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

**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

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



**DATE:** June 1, 2004

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