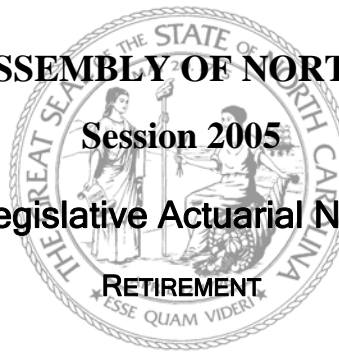


GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note



BILL NUMBER: House Bill 2652 (First Edition)

SHORT TITLE: Retirement System COLAs.

SPONSOR(S): Representatives Wilson and Bell

FUNDS AFFECTED: General Fund, Highway Fund, Receipt Funds and Local Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System and Legislative Retirement System and the Local Governmental Employees' Retirement System.

EFFECTIVE DATE: July 1, 2006

BILL SUMMARY: Provides a post-retirement increase of 3.4% in the benefits of retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System and a post-retirement increase of 2.8% in the benefits of retirees of the Local Governmental Employees' Retirement System.

ESTIMATED IMPACT:

Teachers' and State Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost of a 3.4% cola to be 1.16% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$98.3M	\$102.4M	\$106.7M	\$111.2M	\$115.9M
Highway Fund	\$ 4.9M	\$ 5.1M	\$ 5.3M	\$ 5.5M	\$5.7M
Receipt Funds	<u>\$31.3M</u>	<u>\$32.6M</u>	<u>\$34.0M</u>	<u>\$35.4M</u>	<u>\$36.9M</u>
TOTAL COST	\$134.4M	\$140.1M	\$146.0M	\$152.2M	\$158.6M

General Assembly Actuary: Hartman & Associates estimates the cost of a 3.4% cola to be 1.05% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$88.9M	\$92.7M	\$96.6M	\$100.7M	\$104.9M
Highway Fund	\$ 4.4M	\$ 4.6M	\$ 4.8M	\$ 5.0M	\$5.2M
Receipt Funds	<u>\$28.3M</u>	<u>\$29.5M</u>	<u>\$30.8M</u>	<u>\$32.1M</u>	<u>\$33.4M</u>
TOTAL COST	\$121.7M	\$126.8M	\$132.2M	\$137.7M	\$143.5M

There are available gains of 0.70% of payroll in the Teachers' and State Employees' Retirement System so an increase of 0.46% in the employer contribution rate would be necessary to pay the additional cost. The appropriation needed is as follows:

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$39.0M	\$40.6M	\$42.3M	\$44.1M	\$46.0M
Highway Fund	\$ 1.9M	\$ 2.0M	\$ 2.1M	\$ 2.2M	\$ 2.3M
Receipt Funds	<u>\$12.4M</u>	<u>\$ 12.9M</u>	<u>\$ 13.5M</u>	<u>\$ 14.1M</u>	<u>\$ 14.6M</u>
TOTAL COST	\$53.3M	\$55.6M	\$57.9M	\$60.3M	\$62.9M

Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost of a 3.4% cola to be 1.80% of payroll.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$973,800	\$1,001,456	\$1,029,897	\$1,059,146	\$1,089,226

General Assembly Actuary: Hartman & Associates estimates the cost of a 3.4% cola to be 1.63% of payroll.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$881,830	\$906,874	\$932,629	\$959,116	\$986,355

There are available gains in the Consolidated Judicial Retirement System so no additional appropriation is needed.

Legislative Retirement System

Retirement System Actuary: Charles Dunn estimates the cost of a 3.4% cola to be 1.87% of payroll.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$67,788	\$67,788	\$67,788	\$67,788	\$67,788

General Assembly Actuary: Hartman & Associates estimates the cost of a 3.4% cola to be 1.67% of payroll.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$60,538	\$60,538	\$60,538	\$60,538	\$60,538

Local Governmental Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost of a 2.8% cola to be 0.39% of the payroll of all members of the Local Governmental Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Local Funds	\$17.2M	\$18.2M	\$19.2M	\$20.3M	\$21.4M

General Assembly Actuary: Hartman & Associates estimates the cost of a 2.8% cola to be 0.36% of payroll

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Local Funds	\$15.9M	\$16.8M	\$17.7M	\$18.7M	\$19.7M

There are available gains in the Local Governmental Employees' Retirement System to fund this without increasing the contribution rates of each employer.

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, 2004 actuarial valuation of the fund. The data included 311,612 active members with an annual payroll of \$10.4 billion and 128,577 retired members in receipt of annual pensions totaling \$2.3 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.

Consolidated Judicial 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, 2004 actuarial valuation of the fund. The data included 490 active members with an annual payroll of \$49.4 million and 420 retired members in receipt of annual pensions totaling \$20.2 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1979 George B. Buck Mortality Table for deaths after retirement, and (d) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected benefit method; however, the method used to determine the contribution rate is the projected unit credit method with 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.

Legislative 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, 2004 actuarial valuation of the fund. The data included 169 active members with an annual payroll of \$3.7 million and 236 retired members in receipt of annual pensions totaling \$1.5 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality Tables for deaths in service and after retirement and (c) 100% vesting after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with service prorate. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Local Governmental 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, 2004 actuarial valuation of the fund. The data included 121,262 active members with an annual payroll of \$4.1 billion and 36,728 retired members in receipt of annual pensions totaling \$525.2 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1979 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 projected benefit method with aggregate level normal cost and frozen accrued liability. 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: Buck Consultants
Hartman & Associates, LLC
Charles W. Dunn

TECHNICAL CONSIDERATIONS: None

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: Lynn Muchmore, Director
Fiscal Research Division



DATE: May 26, 2006

Signed Copy Located in the NCGA Principal Clerk's Offices