

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 247 (First Edition)
SHORT TITLE: Retired Teachers Work /No Penalty.
SPONSOR(S): Representatives Preston, Yongue, Johnson, and Carney

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

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

EFFECTIVE DATE: July 1, 2005

BILL SUMMARY: The present law provides for a cap on the amount of earnings that a re-employed retired employee may earn without reduction of the employee's retirement benefits. The earnable amount is the greater of 50% of the salary the member was earning prior to retirement or \$25,420. A provision within that section permits re-employment of retired public school employees who have been retired at least six months and have not been employed (except as a substitute teacher or part-time tutor) by any public school system for at least six months, and provides that earnings from employment on a substitute, interim, or permanent basis by a public school shall not be counted to reduce the employee's retirement benefits. GS 115C-316(d) provides that a local board of education may pay a retired teachers no more that teacher would have received on the teacher salary schedule, excluding longevity, had teacher not retired. These provisions are scheduled to expire June 30, 2005.

The bill extends the sunset to June 20, 2007 and repeals SL 2004-124, Sec. 31.18A(g), which requires an employer contribution of 11.7% of salary of retired teachers to the Teachers' and State Employees' Retirement System.

ESTIMATED IMPACT:

Retirement System Actuary: Mellon estimates the cost to be 0.06% of the payroll of all members of the Teachers' and State Employees' Retirement System.

Table with 6 columns: Fund Type, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10. Rows include General Fund, Highway Fund, Receipt Funds, and TOTAL COST.

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.07% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$5.6M	\$5.9M	\$6.2M	\$6.5M	\$6.8M
Highway Fund	\$0.3M	\$0.3M	\$0.3M	\$0.3M	\$0.3M
Receipt Funds	<u>\$1.8M</u>	<u>\$1.9M</u>	<u>\$2.0M</u>	<u>\$2.1M</u>	<u>\$2.2M</u>
TOTAL COST	\$7.8M	\$8.1M	\$8.5M	\$8.9M	\$9.4M

There are available gains of 0.47% of payroll in the Teachers' and State Employees' Retirement System to fund this sunset extension, without increasing the contribution rate.

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, 2003 actuarial valuation of the fund. The data included 303,768 active members with an annual payroll of \$10.1 billion and 123,077 retired members in receipt of annual pensions totaling \$2.1 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

TECHNICAL CONSIDERATIONS: The estimated cost is determined by using the assumed rates of retirement versus the actual rates of retirement for members of this group.

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: March 16, 2005

Signed Copy Located in the NCGA Principal Clerk's Offices