

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1241 (First Edition)
SHORT TITLE: State Law Officers' 28-Year Retirement.
SPONSOR(S): Representative Culpepper

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: Reduces the service requirement for unreduced retirement benefits from 30 years of service regardless of age to 28 years of service as a law enforcement officer beginning at age 50. The bill also reduces the requirement of 30 years to 28 years in order to qualify to receive the special separation allowance of .85% of salary for each year of service.

ESTIMATED IMPACT: Teachers' and State Employees' Retirement System

Retirement System Actuary: Mellon estimates the employer contribution rate will increase by .01% 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	\$806,200	\$844,575	\$884,777	\$926,892	\$971,012
Highway Fund	\$40,200	\$42,114	\$44,118	\$46,218	\$48,418
Receipt Funds	<u>\$263,821</u>	<u>\$276,379</u>	<u>\$289,534</u>	<u>\$303,316</u>	<u>\$317,754</u>
Ret. Cost	\$1,110,221	\$1,163,067	\$1,218,429	\$1,276,427	\$1,337,184
Separation Allow.	<u>\$276,000</u>	<u>\$410,000</u>	<u>\$385,000</u>	<u>\$436,000</u>	<u>\$638,000</u>
TOTAL COST	\$1,386,221	\$1,573,067	\$1,603,429	\$1,712,427	\$1,975,184

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase by .01% and the accrued liability cost will increase by .01% for a total increase of .02% 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	\$1,612,400	\$1,689,150	\$1,769,554	\$1,853,785	\$1,942,025
Highway Fund	\$80,400	\$84,227	\$88,236	\$92,436	\$96,836
Receipt Funds	<u>\$527,642</u>	<u>\$552,757</u>	<u>\$579,069</u>	<u>\$606,632</u>	<u>\$635,508</u>
Ret. Cost	\$2,220,442	\$2,326,135	\$2,436,859	\$2,552,853	\$2,674,369
Separation Allow.	<u>\$374,253</u>	<u>\$430,630</u>	<u>\$513,005</u>	<u>\$746,042</u>	<u>\$950,552</u>
TOTAL COST	\$2,594,695	\$2,756,765	\$2,949,864	\$3,298,895	\$3,624,921

There are available gains of 0.47% of payroll in the Teachers' and State Employees' Retirement System to fund this benefit enhancement.

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: 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.

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Fiscal Research Division



DATE: April 22, 2005

Signed Copy Located in the NCGA Principal Clerk's Offices