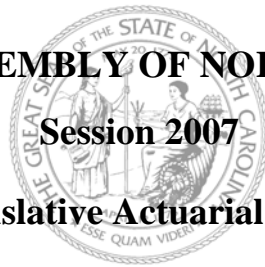# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 778 (First Edition)

SHORT TITLE: Enhance Retirement Benefits.-AB

SPONSOR(S):   Representatives Bell and J. Harrell

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System and local funds for the Local Governmental Employees' Retirement System

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

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: This bill is an agency bill requested by the board of trustees of the systems. The bill increases the formula in the Teachers and State Employees' Retirement System from 1.82% to 1.83% effective July 1, 2007. The bill grants a 2.5% cost of living adjustment to the retirees of the Teachers and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System effective July 1, 2007. The bill also grants a 2.2% cost of living adjustment to the retirees of the Local Governmental Employees' Retirement System. Also provides that the State's employer contribution rate for retirement and related benefits as a percentage of covered salaries for the Teachers and State Employees' Retirement System is to be increased from 2.66% to 4% for 2007-08.

ESTIMATED IMPACT:
Formula Increase from 1.82% to 1.83%
Retirement System Actuary: Buck Consultants estimates the cost to be 0.41% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$37.9M	$39.5M	$41.1M	$42.8M	$44.5M
Highway Fund	$1.8M	$1.9M	$2.0M	$2.0M	$2.1M
Receipt Funds	$11.9M	$12.4M	$12.9M	$13.4M	$14.0M
TOTAL COST	**$51.6M**	**$53.7M**	**$55.9M**	**$58.2M**	**$60.6M**

General Assembly Actuary**:** Hartman & Associates estimates the cost to be 0.40% the payroll of all members of the Teachers' and State Employees' Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$37.0M	$38.5M	$40.1M	$41.7M	$43.4M
Highway Fund	$1.8M	$1.8M	$1.9M	$2.0M	$2.1M
Receipt Funds	$11.5M	$12.1M	$12.5M	$13.1M	$13.6M
TOTAL COST	**$50.3M**	**$52.4M**	**$54.5M**	**$56.8M**	**$59.1M**

2.5% COLA for Teachers' and State Employees' Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 0.83% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$76.8M	$79.9M	$83.2M	$86.6M	$90.1M
Highway Fund	$3.7M	$3.8M	$4.0M	$4.1M	$4.3M
Receipt Funds	$24.0M	$25.0M	$26.0M	$27.1M	$28.2M
TOTAL COST	**$104.5M**	**$108.7M**	**$113.2M**	**$117.8M**	**$122.6M**

General Assembly Actuary**:** Hartman & Associates estimates the cost to be 0.80% the payroll of all members of the Teachers' and State Employees' Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$74.0M	$77.0M	$80.2M	$83.4M	$86.8M
Highway Fund	$3.5M	$3.7M	$3.8M	$4.0M	$4.1M
Receipt Funds	$23.2M	$24.1M	$25.1M	$26.1M	$27.2M
TOTAL COST	**$100.7M**	**$104.8M**	**$109.1M**	**$113.5M**	**$118.2M**

Any of the above cost would be reduced by the following which represents gains available within the system of 0.34% of payroll in the Teachers' and State Employees' Retirement System:

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$31.5M	$32.7M	$34.1M	$35.5M	$36.9M
Highway Fund	$1.5M	$1.6M	$1.6M	$1.7M	$1.8M
Receipt Funds	$9.8M	$10.2M	$10.7M	$11.1M	$11.6M
TOTAL GAINS	**$42.8M**	**$44.5M**	**$46.4M**	**$48.3M**	**$50.2M**

Increase the Employer Contribution Rate from 2.66% to 4% for the Teachers' and State Employees' Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$124.0M	$129.0M	$134.3M	$139.7M	$145.5M
Highway Fund	$5.9M	$6.2M	$6.4M	$6.7M	$7.0M
Receipt Funds	$38.8M	$40.4M	$42.0M	$43.8M	$45.5M
TOTAL COST	**$168.7M**	**$175.6M**	**$182.7M**	**$190.2M**	**$197.9M**

2.5% COLA for Consolidated Judicial Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 1.38% of the payroll of all members of the Consolidated Judicial Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$814,200	$840,824	$868,319	$896,713	$926,036

General Assembly Actuary**:** Hartman & Associates estimates the cost to be 0.80% the payroll of all members of the Consolidated Judicial Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$767,000	$792,081	$817,982	$844,730	$872,353

There are available gains of 1.72% of payroll in the Consolidated Judicial Retirement System to fund this increase.

2.5% COLA for Legislative Retirement System
Retirement System Actuary: Charles Dunn estimates the cost to be1.45% of the payroll of all members of the Legislative Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$52,200	$52,200	$52,200	$52,200	$52,200

General Assembly Actuary**:** Hartman & Associates estimates the cost to be 1.48% the payroll of all members of the Legislative Retirement System.

	2007-08	**2008-09**	**2009-10**	**2010-11**	**2011-12**
General Fund	$53,600	$53,600	$53,600	$53,600	$53,600

2.2% COLA for Local Governmental Employees' Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 0.33% of the payroll of all members of the Local Governmental Employees' Retirement System

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$15.5M	$16.3M	$17.1M	$17.9M	$18.8M

General Assembly Actuary**:** Hartman & Associates estimates the cost to be 0.31% the payroll of all members of the Local Governmental Employees' Retirement System

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$14.6M	$15.3M	$16.0M	$16.8M	$17.6M

There are available gains of 0.33% of payroll in the Local Governmental Employees' Retirement System to fund this increase without increasing the contribution rate to units of local government.

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, 2005 actuarial valuation of the fund. The data included 321,513 active members with an annual payroll of $11 billion, 134,719 retired members in receipt of annual pensions totaling $2.5 billion and actuarial value of assets equal to

$49.7 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, 2005 actuarial valuation of the fund. The data included 497 active members with an annual payroll of $51 million, 449 retired members in receipt of annual pensions totaling $20.2 million and actuarial value of assets equal to $382.5 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, 2005 actuarial valuation of the fund. The data included 170 active members with an annual payroll of $3.7 million, 250 retired members in receipt of annual pensions totaling $1.7 million and actuarial value of assets equal to $28.4 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, 2005 actuarial valuation of the fund. The data included 123,015 active members with an annual payroll of $4.2 billion, 38,448 retired members in receipt of annual pensions totaling $575 million and actuarial value of assets equal to $14.4 billion. 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

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: April 6, 2007

Signed Copy Located in the NCGA Principal Clerk's Offices