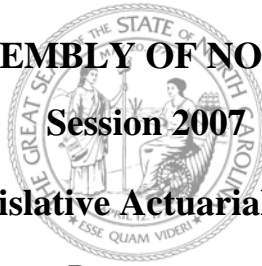


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1415 (Third Edition)

SHORT TITLE: Short-Term Disability/Military Service.

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

SYSTEM OR PROGRAM AFFECTED: Disability Income Plan of North Carolina

EFFECTIVE DATE: July 1, 2007 & August 1, 2007 but applies only to member who have less than five years of membership service as of July 31, 2007.

BILL SUMMARY: Amends GS 135-105(a) to prohibit a member of the Teachers' and State Employees' Retirement System from being denied short-term disability benefits in the Disability Income Plan because of their absence for military service meeting the requirements of the Uniformed Services Employment and Reemployment Act of 1994.

In order to be eligible to receive long-term disability benefits, the medical board must certify that such member is mentally or physically incapacitated for the further performance of their duties and that such incapacity was incurred at the time of active employment and that such incapacity is likely to be permanent. This present criteria are scheduled to change effective August 1, 2007 to more restrictive criteria in order to receive long-term disability benefits. This bill changes the criteria to the same occupational test that it has been in the past and allows the member to receive the benefits for three years. After three years of long-term disability benefits, the member must be qualified to receive Social Security disability benefits, and if not, no further benefits will be paid to the member.

ESTIMATED IMPACT ON THE STATE: The Retirement System Actuary, Buck Consultants, does not expect the changes to have any impact on the cost of the plan for next few years. However, there should be cost savings as new members become disabled under the more restrictive qualification rules.

The General Assembly Actuary, Hartman & Associates, states the bill may produce additional short-term disability claims but expects a low incidence rate so the overall financial impact is not expected to be significant. The changes to an occupation test for the long-term disability benefit with requirement of qualifying for Social Security will not have impact immediately but will generate saving over time.

ASSUMPTIONS AND METHODOLOGY: Disability Income Plan of North Carolina

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 Plan. The data included 333,635 active members with an annual payroll of \$11.9 billion and 5,569 disabled

members in receipt of annual long term benefits totaling \$50.8 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) assumed rates of disability and termination are based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transactions Volume XXXIX, 1987, adjusted by a factor of 0.80, (c) across-the-board salary increases of 5.75%, (d) Social Security disability benefits are assumed to increase 3.75% per year and (e) rates of approval for Social Security benefits prior to completion of four years of disability is 75%. Claims cost for LTD benefits is calculated using the one-year term cost method. 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

DATE: June 28, 2007



Signed Copy Located in the NCGA Principal Clerk's Offices