

**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2011**

**Legislative Actuarial Note**

**RETIREMENT**

**BILL NUMBER:** House Bill 376 (First Edition)  
**SHORT TITLE:** Retirement Technical Corrections.-AB  
**SPONSOR(S):** Representative McGee

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**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 and Local Governmental Employees' Retirement System.

**EFFECTIVE DATE:** July 1, 2011

**BILL SUMMARY:**

Section 1: Clarifies that former employees are eligible for health benefits if those employees are approved for disability retirement or disability income benefits but do not receive the benefits due to lump-sum payouts of vacation, bonus, and sick leave.

Section 2: Directs the employer to remit penalty payment to the retirement system, in one lump sum, within 90 days of the date the employer receives notification that the employer failed to report re-employed beneficiaries.

Section 3: Makes clarifying changes to the State System and Local System that if the member has applied for and was approved for disability benefits, but does not live to the effective date of retirement, the one and only one beneficiary will have a choice between a return of contributions or a monthly benefit for life provided by a 100% joint and survivorship option.

Section 4: Makes clear that members of the Local System may render no service, including part time, temporary, substitute, or contractor service, at any time during the month immediately following the effective date of retirement.

Section 5: Amends the State System and Local System, which relates to the armed services credit, to add that a member's employer must remit to the retirement system all employer contributions for the full period of the member's service when a member previously on military leave returns to work.

Section 6: Eliminates the required six-month break in service when any member that was receiving a long-term disability benefit that was converted to an unreduced retirement benefit.

**ESTIMATED IMPACT ON STATE:** Buck Consultants, the Retirement Systems' actuary, estimates the cost of all the changes would be less than 0.01% of the payroll for all members of the Teachers' and State Employees' Retirement System.

Hartman & Associates, the General Assembly's actuary, states the estimated cost is not expected to be significant.

**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, 2009 actuarial valuation of the System. The data included 316,647 active members with an annual payroll of \$13.3 billion, 156,791 retired members in receipt of annual pensions totaling \$3.2 billion and actuarial value of assets equal to \$55.8 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of nine years. Detailed information concerning these assumptions and methods are 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, 2009 actuarial valuation of the fund. The data included 123,398 active members with an annual payroll of \$5.2 billion, 46,557 retired members in receipt of annual pensions totaling \$795.8 million and actuarial value of assets equal to \$17.7 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. Gains and losses are reflected in the normal rate. 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:** June 3, 2011



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