

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

RETIREMENT

BILL NUMBER: House Bill 359 (First Edition)

SHORT TITLE: Retirement Administrative Changes Act of 2013-AB

SPONSOR(S): Representatives Blust, Collins, Moffitt, and Warren

FUNDS AFFECTED: State and Local Funds

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, 2013

BILL SUMMARY:

Section 1: Extend Transfer Benefit Option to 403(b) Participants

Allow participants in the State's new 403(b) program to make a one-time election at retirement or following retirement to transfer any portion of his or her eligible accumulated contributions, not including Roth contributions and earnings, in the NC 403(b) program to the Teachers' and State Employees' Retirement System, and receive a special monthly retirement allowance based upon this transferred balance. This transfer benefit option is currently available to participants in the State's 401(k) and 457 plans.

Section 2: Clarify Timing of Social Security Offset for Long-Term Disability Benefits

Clarifies that the amount of any primary Social Security disability benefits that a member was eligible to receive during a given month will be subtracted from the member's long-term disability benefit payment in the month in which such benefits are payable. Currently, the statute allows benefits to be reduced in the month prior to the month in which the beneficiary receives his or her first Social Security benefit payment.

Section 3: Establish Preservation of Benefits Plan

Creates a Qualified Excess Benefit Arrangement for the purpose of providing benefits to retirees and/or beneficiaries of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System, whose benefits would otherwise be limited by Section 415 of the Internal Revenue Code.

ESTIMATED IMPACT ON STATE: Section 2: Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary estimates the annual cost to the Disability Income Plan will increase by 0.01% of total payroll. The estimated annual cost is as follows:

	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
General Fund	\$1,106,100	\$1,126,784	\$1,147,855	\$1,169,320	\$1,191,186
Highway Fund	\$31,150	\$31,733	\$32,326	\$32,930	\$33,546
Receipts Fund	<u>\$417,000</u>	<u>\$424,798</u>	<u>\$432,742</u>	<u>\$440,834</u>	<u>\$449,077</u>
Grand Total	\$1,554,250	\$1,583,314	\$1,612,922	\$1,643,084	\$1,673,810

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, 2011 actuarial valuation of the System. The data included 310,627 active members with an annual payroll of \$12.8 billion, 171,786 retired members in receipt of annual pensions totaling \$3.5 billion and actuarial value of assets equal to \$58.1 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 teaches 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 twelve years. Detailed information concerning these assumptions and methods are 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, 2011 actuarial valuation of the System. The data included 566 active members with an annual payroll of \$67.8 million, 562 retired members in receipt of annual pensions totaling \$32.3 million and actuarial value of assets equal to \$460.6 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) salary increase rate between 5% and 5.95% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward one year, (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, (f) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit with an amortization period of twelve years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. Detailed information concerning these assumptions and methods are 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, 2011 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.6 million, 278 retired members in receipt of annual pensions totaling \$2.1 million and actuarial value of assets equal to \$29.4 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 an amortization period of eight years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. 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 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, 2011 actuarial valuation of the fund. The data included 121,638 active members with an annual payroll of \$5.1 billion, 51,700 retired members in receipt of annual pensions totaling \$909 million and actuarial value of assets equal to \$19.3 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.

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, 2011 actuarial valuation of the Plan. The data included 324,2906 active members with an annual payroll of \$14.1 billion and 6,754 disabled members in receipt of annual long term benefits totaling \$80.4 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) across-the-board salary increases of 5.75%, (c) Social Security disability benefits are assumed to increase 3% per year and (d) rates of approval for Social Security benefits prior to completion of four years of disability is 50%. Claims cost for LTD benefits is calculated using aggregate 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.

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APPROVED BY: Mark Trogon, Director
Fiscal Research Division

DATE: April 11, 2013



Signed Copy Located in the NCGA Principal Clerk's Offices