

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1066 (First Edition)

SHORT TITLE: Officials Forfeit Pensions for Felonies.

SPONSOR(S): Representatives Howard, Ross, Braxton, and Tarleton

FUNDS AFFECTED: General Fund, Highway Fund, Receipt funds and local funds

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

EFFECTIVE DATE: When it becomes law

BILL SUMMARY: Enacts new provision in the Teachers' & State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System prohibiting the Board of Trustees from paying retirement benefits (other than a return of contributions) to any member of the Systems who is convicted of a felony while the person is serving as a member of the System if the conduct the offense is based on is directly related to service as a member. The bill also amends the law to require members who have not vested in the legislative retirement system at the time the bill becomes law and are convicted of an offense to forfeit all benefits; members who have vested at the time the bill becomes law and are convicted of an offense after that date are not entitled to creditable service accruing after the date the statute becomes law.

ESTIMATED IMPACT ON STATE: The retirement systems actuary, Buck Consultants, the General Assembly's actuary, Hartman & Associates and the Legislative Retirement System actuary, Charles W. Dunn, all agree that there will be no cost impact on any of the retirement systems as a result of this bill, since the bill could only reduce benefits payable.

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 prorated. 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
Charles W. Dunn
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: Lynn Muchmore, Director
Fiscal Research Division

DATE: April 6, 2007



Signed Copy Located in the NCGA Principal Clerk's Offices