GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 2773 (First Edition)

SHORT TITLE: Retirement Technical Corrections.

SPONSOR(S): Representatives Bell and J. Harrell

FUNDS AFFECTED: State and local funds.

SYSTEM OR PROGRAM AFFECTED: Teachers and State Employees, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and the Firemen's and Rescue Squad Workers' Pension Fund.

EFFECTIVE DATE: July 1, 2008

BILL SUMMARY: The bill makes several technical corrections as follows:

- Amends the Teachers and State Employees, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System to conform with the Internal Revenue Code by allowing a non-spouse beneficiary of a deceased member of the retirement system to elect to directly roll over any portion of the distribution, effective January 1, 2007.
- Amends the Local Governmental Employees' Retirement System to remove fire departments, which serve a city or county and are supported by municipal or county funds, from the definition of employer.
- Amends GS 58-86-25 and GS 58-86-30 by changing the date from January 1 to January 31 for annually submitting the list of eligible firemen and rescue squad workers for the Firemen's and Rescue Squad Workers' Pension Fund to the State Treasurer.
- Amends GS 58-86-35 and GS 58-86-40 by clarifying that the monthly payments to the fund must be made no later than 90 days after the end of the calendar year in which the month occurred.
- Amends GS 58-86-45(b) by eliminating restrictions to applying for membership and receiving credit for the fund if the fireman or rescue squad worker is less than 35 years old.
- Repeals GS 58-86-50 (administrative fee for rejoining the fund).
- Amends GS 58-86-60 (payments in lump sums) to eliminate other administrative fees and make technical changes.

ESTIMATED IMPACT ON STATE: Both, the Systems' actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that there should be no impact on the various systems as a result of these changes.

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, 2006 actuarial valuation of the fund. The data included 330,117 active members with an annual payroll of $11.7 billion, 140,292 retired members in receipt of annual pensions totaling $2.7 billion and actuarial value of assets equal to $52.4 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) average salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are not adjusted for male teachers, set forward one year for female teachers, set forward two years for general employees and law enforcement officers and set forward two years for the beneficiaries of deceased member (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a frozen 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, 2006 actuarial valuation of the fund. The data included 512 active members with an annual payroll of $53.3 million, 460 retired members in receipt of annual pensions totaling $23.9 million and actuarial value of assets equal to $406 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are set forward two years for post-retirement period and set back one year for pre-retirement period. Special mortality tables are used for period after disability 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 unit credit. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. 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, 2006 actuarial valuation of the fund. The data included 170 active members with an annual payroll of $3.7 million, 245 retired members in receipt of annual pensions totaling $1.7 million and actuarial value of assets equal to $29.6 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 prorata. 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, 2006 actuarial valuation of the fund. The data included 124,844 active members with an annual payroll of $4.5 billion, 40,574 retired members in receipt of annual pensions totaling $639.3 million and actuarial value of assets equal to $15.6 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members. Special mortality tables are used for period after disability 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. 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.

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APPROVED BY:
Lynn Muchmore, Director
Fiscal Research Division

DATE: June 9, 2008

Signed Copy Located in the NCGA Principal Clerk's Offices