# GENERAL ASSEMBLY OF NORTH CAROLINA

## Session 2009

## Legislative Actuarial Note

RETIREMENT

**BILL NUMBER:** Senate Bill 986 (First Edition)

**SHORT TITLE:** Clarify Local Special Separation Allowance.

**SPONSOR(S):** Senator McKissick

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**FUNDS AFFECTED:** Funds of cities, towns and counties that have retired law enforcement officers who are receiving the Special Separation Allowance.

**SYSTEM OR PROGRAM AFFECTED: Special Separation Allowance**
Present Retirement Benefits for Locally Employed Law Enforcement Officers:
All full-time permanent law enforcement officers of local governments are eligible to be members of the Local Governmental Employees' Retirement System. In order to retire on an unreduced retirement benefit, a member must meet one of the following conditions:

(1) Age 55 with 5 years of service;
(2) Any age with 30 years of service.

A retired law enforcement officer with 30 years of service will receive approximately 53% of salary from the Retirement System.

To qualify for the Special Separation Allowance, the officer must have completed 30 years of service or attained age 55 with 5 or more years of creditable service and be under age 62. The Special Separation Allowance pays each retiree a monthly allowance of .85% of salary for each year of creditable service. The benefit is to be paid until the earlier of the death of the officer, age 62 or the first day of re-employment by a local government employer in any capacity. A retiree with 30 years will receive a Separation Allowance equal to approximately 25% of salary.

**EFFECTIVE DATE:** When it becomes law

**BILL SUMMARY:** This bill puts into the General Statutes the benefit, age and service requirements for local law enforcement officers to receive the Special Separation Allowance. Since 1985, the benefit, age and service requirements were in the General Statutes as it related to State law enforcement officers and the General Statutes relating to local law enforcement officers said that local governments would be responsible for determining eligibility and making payments to the retired local law enforcement officers under the same conditions as for retired State law enforcement officers.

Over the years, there have been conflicting opinions as to the intent of the law mainly as a result of some changes in law relating to State law enforcement officers and employment practices by local governments. This resulted in local governments interpreting the law differently and making rules relating to their retirees. Determination of eligibility and payment of benefits, therefore, varied from local government to local government.

The bill establishes the Special Separation Allowance of 0.85% of base rate of compensation for each year of creditable service. To qualify, the officer must have completed 30 years of service or attained age 55 with 5 or more years of creditable service and be under age 62. The benefit is to be paid until the earlier of the death of the officer, age 62 or the first day of re-employment by a local government employer in any capacity.

However, the bill allows for the continuation of payment of the Special Separation Allowance, if local governments, in the interest of public safety, adopt a policy allowing for the reemployment of retired officers on a temporary, contractual or reserve basis that would not require membership in the Local Governmental Employees' Retirement System. The bill also requires retroactive payment of Separation Allowance if any local government has denied payment for any reason other than is allowed for in this act.

**ESTIMATED IMPACT ON LOCAL GOVERMENTS:**
The Retirement System Actuary, Buck Consultants estimates that this bill will not increase the unfunded actuarial accrued liability or the contribution rate to the Local Governmental Employees' Retirement System.

However, there is a cost to local government units in continuing Special Separation Allowance payments to retirees whose benefits are not suspended due to this legislation.

Retirement System Actuary: Buck Consultants estimates the annual cost for every 50 law enforcement officers that retire during 2009 to be as follows:

| | **2009-10** | **2010-11** | **2011-12** | **2012-13** | **2013-14** |
|---|---|---|---|---|---|
| Separation Allow. | $277,000 | $540,000 | $517,000 | $495,000 | $469,000 |

General Assembly Actuary: Hartman & Associates could not provide a cost estimate due to no data but states that the bill will create some cost to the Local Governmental Employees' Retirement System as a result of members, who could retire immediately and return to work on contract or temporary employment without the suspension of the Special Separation Allowance.

**ASSUMPTIONS AND METHODOLOGY: 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, 2007 actuarial valuation of the fund. The data included 127,959 active members with an annual payroll of $4.75 billion, 42,408 retired members in receipt of annual pensions totaling $689.4 million, and actuarial value of assets equal to $16.8 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 set forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members and 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:** There is not an actuary that has the responsibility to oversee the Special Separation Allowance, since hundreds of local governments are responsible for determining eligibility and for the payment of benefits. So, we used the Retirement System Actuary, Buck Consultants, and the General Assembly Actuary, Hartman & Associates to estimate the cost and results of this bill since they have data on active members and retirees of the System.

**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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