

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 927 (Second Edition)
SHORT TITLE: State Pension Plan Solvency Reform Act.
SPONSOR(S): Representatives Starnes, McGee, Folwell, and Dixon

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System and General Fund for the Consolidated Judicial Retirement System.

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Consolidated Judicial Retirement System

EFFECTIVE DATE: August 1, 2011 and December 1, 2011

BILL SUMMARY: The bill makes several changes in the age and service requirements in order to retire with either a reduced or unreduced benefit from the Teachers' and State Employees' Retirement System and Consolidated Judicial Retirement System only for members of the retirement systems on or after August 1, 2011. Members of the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System prior to August 1, 2011 will continue to vest after completing five years of membership service.

Sections 1 – 8

Under the present law, members of the Teachers' and State Employees' Retirement System and Consolidated Judicial Retirement System must complete five years of membership service in or to vest and qualify for a retirement benefit. This bill changes the five year vesting to ten year vesting for employees who become members on or after August 1, 2011.

Section 9:

Rewrites the law relating to the special separation allowance for law-enforcement officers, employed by a state department, agency, or institution, on or after August 1, 2011 to conform to the new age and service requirements in the bill

Section 10:

Enacts new Section in the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Local Governmental Employees' Retirement System and Legislative Retirement System to be effective December 1, 2011 to detail a new Class 1 misdemeanor which prohibits a person from improperly receiving a decedent's retirement benefit.

ESTIMATED IMPACT ON STATE FOR THE TEACHES' AND STATE EMPLOYEES' RETIREMENT SYSTEM: Buck Consultants, the Retirement Systems' actuary, estimates the impact of the proposed legislation will increase over time. They estimate the normal cost is projected to be reduced from a total of 11.12% of payroll (5.12% + 6%) to 11.05% of payroll (5.05% + 6%) for a decrease in the employer contribution rate of 0.07% of payroll. Based on estimated payroll from all sources, the saving eventually would be about \$9.9 million annually, years from now.

Hartman & Associates, the General Assembly's actuary, estimates the normal employer cost will decrease over time from 5.12% to 5.06%, for a decrease in the employer contribution rate of 0.06%.

ESTIMATED IMPACT ON STATE FOR THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM: Buck Consultants, the Retirement Systems' actuary, estimates the impact of the proposed legislation will increase over time. They estimate the normal cost is projected to be reduced from a total of 23.79% of payroll (17.79% + 6%) to 23.28% of payroll (17.28% + 6%), for a decrease in the employer contribution rate of 0.51% of payroll. Based on estimated present payroll, the saving eventually would be about \$350,000 annually years from now.

Hartman & Associates, the General Assembly's actuary, estimates the normal employer cost will decrease over time from 17.79% to 17.69% for a decrease in the employer contribution rate of 0.10%.

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 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 nine 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, 2009 actuarial valuation of the System. The data included 559 active members with an annual payroll of \$66.2 million,

529 retired members in receipt of annual pensions totaling \$29.5 million and actuarial value of assets equal to \$440 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 nine 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.

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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DATE: June 9, 2011



Signed Copy Located in the NCGA Principal Clerk's Offices