

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1077

SHORT TITLE: Firefighters' and Rescue Squad Workers' Retirement

SPONSOR(S): Representative Arnold

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Funds and Local Government Funds

BILL SUMMARY: Defines "Career Firefighter" and "Career Rescue Squad Workers" in the Local Governmental Employees' Retirement System and provides for unreduced retirement at age 55 with 5 years of service or any age with 30 years of service. Reduced benefits are available at age 50 with 15 years. Also requires the local employer to pay 5% of salary of each firefighter into the Supplemental Retirement Plan [401(k) Plan].

The bill increases the rate of premium tax on other insurance contracts from 1.9% to 2.0319% and this tax is credited to the General Fund. There is General Fund appropriation to the Local Governmental Employees' Retirement System of \$6.5 million for 2001-02 and \$13 million for 2002-03 to offset the additional cost to local government unit for the increased benefits.

EFFECTIVE DATE: The increased premium tax is effective January 1, 2001. Retirement benefit changes are effective January 1, 2002.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: The following cost estimates are based on data of 6,801 firefighters and rescue squad workers with an estimated annual payroll of \$218,375,000 projected at the average annual increase in compensation base of 6.45% for the Local System over the next five years.

Presently there is an estimated 112 local units that make voluntary contributions to the 401(k) Plan amounting to \$4,011,000 for 3,272 firefighters and rescue squad workers.

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 4.8% to 5.32% for an increase of 0.52% of the payroll of firefighters and rescue squad workers. They estimate the unfunded accrued liability will increase by \$10,158,000, which will require additional contributions of \$879,000 per year to liquidate this liability over a 15-year period.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost	\$0.6m	\$1.2m	\$1.3m	\$1.4m	\$1.5m
Accrued Liability	<u>\$0.4m</u>	<u>\$0.9m</u>	<u>\$1.0m</u>	<u>\$1.1m</u>	<u>\$1.1m</u>
Retirement Cost	\$1.0m	\$2.1m	\$2.3m	\$2.5m	\$2.6m
401(k) Contributions	<u>\$5.5m</u>	<u>\$11.6m</u>	<u>\$12.4m</u>	<u>\$13.2m</u>	<u>\$14.0m</u>
Total Cost	\$6.5m	\$13.7m	\$14.7m	\$15.6m	\$16.6m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 4.80% to 5.48% for an increase of 0.68% of the payroll of firefighters and rescue squad workers. They estimate the unfunded liability will be liquidated over a 15-year period by applying the rate of 0.69% to the payroll of firefighters and rescue squad workers.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost	\$0.7m	\$1.6m	\$1.7m	\$1.8m	\$1.9m
Accrued Liability	<u>\$0.8m</u>	<u>\$1.6m</u>	<u>\$1.7m</u>	<u>\$1.8m</u>	<u>\$1.9m</u>
<u>Retirement Cost</u>	\$1.5m	\$3.2m	\$3.4m	\$3.6m	\$3.8m
401(k) Contributions	<u>\$5.5m</u>	<u>\$11.6m</u>	<u>\$12.4m</u>	<u>\$13.2m</u>	<u>\$14.0m</u>
Total Cost	\$7.0m	\$14.8m	\$15.8m	\$16.8m	\$17.8m

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, 1999 actuarial valuation of the fund. The data included 112,431 active members with an annual payroll of \$3.12 billion and 28,562 retired members in receipt of annual pensions totaling \$318 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 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: System Actuary - Buck Consultant, Inc.
 General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson

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