

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

**BILL NUMBER:** Committee Substitute for Senate Bill 1115

- Section 28.7 - Increase Fire and Rescue Pension Benefits
- Section 28.8 - Provides Cost-of-living Increases for Retirees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System
- Section 28.9 - Enhance Benefits Payable from the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System
- Section 28.10 - Retired Teachers returning to the classroom without loss of Retirement Benefits/Option Extended
- Section 28.11 - Abolish Judicial/Legislative Retirement System
- Section 28.12 - Conform treatment of retired legislative employees who return to employment in a full-time permanent position with that of other state employees
- Section 28.13 - Modify benefit restrictions for reemployed retirees in the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System

**SPECIAL PROVISION:** Section 28.7 INCREASE FIRE AND RESCUE PENSION BENEFITS

**SYSTEM OR PROGRAM AFFECTED:** Firemen's and Rescue Squad Worker's Pension Fund

**FUNDS AFFECTED:** General Fund

**BILL SUMMARY:** Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$151 to \$156

**EFFECTIVE DATE:** July 1, 2002

**ESTIMATED IMPACT ON STATE:** System Actuary: Buck Consultants

	<u>FY</u> <b>2002-03</b>	<u>FY</u> <b>2003-04</b>	<u>FY</u> <b>2004-05</b>	<u>FY</u> <b>2005-06</b>	<u>FY</u> <b>2006-07</b>
Benefit Increase	\$1,371,590	\$1,371,590	\$1,371,590	\$1,371,590	\$1,371,590

General Assembly Actuary: Hartman & Associates

	<u>FY</u> <b>2002-03</b>	<u>FY</u> <b>2003-04</b>	<u>FY</u> <b>2004-05</b>	<u>FY</u> <b>2005-06</b>	<u>FY</u> <b>2006-07</b>
Benefit Increase	\$1,442,065	\$1,442,065	\$1,442,065	\$1,442,065	\$1,442,065

There are funds within the Pension Fund to cover the cost of this increase.

**SPECIAL PROVISION:** Section 28.8 PROVIDES COST-OF-LIVING INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

**SYSTEM OR PROGRAM AFFECTED:** Teacher's & State Employees' Retirement System and Local Governmental Employees' Retirement System

**FUNDS AFFECTED:** General Fund, Highway Fund, Receipt Fund and Local Funds

**BILL SUMMARY:** Provides a post-retirement increase of 1.1% in the benefits of retirees of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.

**EFFECTIVE DATE:** July 1, 2002

**ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost to be 0.31% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$22.9M	\$24.4M	\$26.0M	\$27.7M	\$29.4M
Highway Fund	\$ 1.1M	\$ 1.2M	\$ 1.3M	\$ 1.4M	\$ 1.5M
Receipt Funds	<u>\$ 7.7M</u>	<u>\$ 8.2M</u>	<u>\$ 8.7M</u>	<u>\$ 9.3M</u>	<u>\$ 9.9M</u>
TOTAL COST	\$31.8M	\$33.8M	\$36.0M	\$38.3M	\$40.8M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.29% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$21.5M	\$22.8M	\$24.3M	\$25.9M	\$27.5M
Highway Fund	\$ 1.1M	\$ 1.1M	\$ 1.2M	\$ 1.3M	\$ 1.4M
Receipt Funds	<u>\$ 7.3M</u>	<u>\$ 7.8M</u>	<u>\$ 8.3M</u>	<u>\$ 8.9M</u>	<u>\$ 9.4M</u>
TOTAL COST	\$29.9M	\$31.8M	\$33.8M	\$36.0M	\$38.3M

There are actuarial gains within the System to fund this increase.

**ESTIMATED IMPACT ON LOCAL GOVERNMENTS:**

**Local Governmental Employees' Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost will be 0.12% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
<u>Total Local Funds</u>	\$4.6M	\$4.9M	\$5.2M	\$5.5M	\$5.9M

General Assembly Actuary: Hartman & Associates estimates the cost will be 0.11% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
<u>Total Local Funds</u>	\$4.2M	\$4.5M	\$4.7M	\$5.1M	\$5.4M

There are actuarial gains within the System to fund this increase.

**SPECIAL PROVISION: Section 28.9 ENHANCE BENEFITS PAYABLE FROM THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System and Local Governmental Employees' Retirement System

**FUNDS AFFECTED:** General Fund, Highway Fund, Receipt Fund and Local Funds

**BILL SUMMARY: Teachers' and State Employees' Retirement System** - Increases the accrual rate for active members from 1.81% to 1.82% for each year of service, grants an adjusting increase of 0.6% to retirees as a result of the accrual rate change. **Local Governmental Employees' Retirement System** - increases the accrual rate for active members from 1.81% to 1.82% for each year of service, grants an adjusting increase of 0.6% to retirees as a result of the accrual rate change.

**EFFECTIVE DATE:** July 1, 2002

**ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost to be 0.41% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$30.4M	\$32.3M	\$34.4M	\$36.6M	\$38.9M
Highway Fund	\$ 1.5M	\$ 1.6M	\$ 1.7M	\$ 1.8M	\$ 1.9M
Receipt Funds	<u>\$10.2M</u>	<u>\$10.8M</u>	<u>\$11.5M</u>	<u>\$12.3M</u>	<u>\$13.0M</u>
<b>TOTAL COST</b>	<b>\$42.0M</b>	<b>\$44.7M</b>	<b>\$47.6M</b>	<b>\$50.7M</b>	<b>\$53.9M</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.42% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$31.1M	\$33.1M	\$35.2M	\$37.5M	\$39.9M
Highway Fund	\$ 1.5M	\$ 1.6M	\$ 1.8M	\$ 1.9M	\$ 2.0M
Receipt Funds	<u>\$10.4M</u>	<u>\$11.1M</u>	<u>\$11.8M</u>	<u>\$12.6M</u>	<u>\$13.4M</u>
<b>TOTAL COST</b>	<b>\$43.1M</b>	<b>\$45.8M</b>	<b>\$48.8M</b>	<b>\$51.9M</b>	<b>55.3M</b>

There are actuarial gains within the System to fund this increase.

**ESTIMATED IMPACT ON LOCAL GOVERNMENTS:**

**Local Governmental Employee's Retirement System**

Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost will be 0.20% of the payroll of all members of the Local Governmental Employees' Retirement System.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
<u>Total Local Funds</u>	\$7.6M	\$8.1M	\$8.7M	\$9.2M	\$9.8M

There are actuarial gains within the System to fund this increase.

**SPECIAL PROVISION: Section 28.10 RETIRED TEACHERS RETURNING TO THE CLASSROOM WITHOUT LOSS OF RETIREMENT BENEFITS/OPTION EXTENDED.**

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System

**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Fund

**BILL SUMMARY:** Under the present law, a retiree is allowed to earn in any calendar year, 50% of the salary earned during the 12 months of service prior to retirement or \$23,600, whichever is greater. The present law removes all reemployment earnings restrictions for any retiree who returns as a teacher, who has not been employed in any capacity, other than as a substitute or part-time tutor, with a public school for the six months immediately preceding the date of reemployment.

This special provision will extend the sunset from June 30, 2003 to June 30, 2004.

**EFFECTIVE DATE:** Extends sunset to June 30, 2004

**ESTIMATED IMPACT ON STATE:** The System's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, both estimate the cost to be 0.02% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$1.5M	\$1.6M	\$1.7M	\$1.8M	\$1.9M
Highway Fund	\$.07M	\$.08M	\$.08M	\$.09M	\$.09M
Receipt Funds	<u>\$0.5M</u>	<u>\$0.5M</u>	<u>\$0.6M</u>	<u>\$0.6M</u>	<u>\$0.6M</u>
TOTAL COST	\$2.1M	\$2.2M	\$2.3M	\$2.5M	\$2.6M

There are actuarial gains within the System to fund this.

**SPECIAL PROVISION: Section 28.11 ABOLISH JUDICIAL/LEGISLATIVE RETIREMENT SYSTEMS.**

**SYSTEM OR PROGRAM AFFECTED:** Teacher's & State Employees' Retirement System, Consolidated Judicial Retirement System and Legislative Retirement System

**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Funds

**BILL SUMMARY:** This will abolish the Consolidated Judicial Retirement System and the Legislative Retirement System effective June 30, 2002. All assets of both systems will be transferred to the Teachers' and State Employees' Retirement System. All active members of both systems will begin contributing to the Teachers' and State Employees' Retirement System and all retirees of both systems will begin receiving their monthly benefits from the Teachers' and State Employees' Retirement System, without any loss of benefits. Any transferring members with five or more years of service will continue to accrue benefits at the same rate as if the systems were not abolished. Future members and the present members with less than five years will begin accruing benefits at the same rate as teachers and State employees, which presently is 1.81% per year of service.

**EFFECTIVE DATE:** June 30, 2002

**ESTIMATED IMPACT ON STATE:** Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that there are sufficient gains within the Teachers' and State Employees' Retirement System to handle this transfer. The cost saving would be the funds that were budgeted to make contributions during 2003-03 for the Consolidated Judicial Retirement System and Legislative Retirement System

**SPECIAL PROVISION:** Section 28.12 CONFORM TREATMENT OF RETIRED LEGISLATIVE EMPLOYEES WHO RETURN TO EMPLOYMENT IN A FULL-TIME PERMANENT POSITION WITH THAT OF OTHER STATE EMPLOYEES.

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System

**FUNDS AFFECTED:** General Fund

**BILL SUMMARY:** Under the present law, a retiree of the Teachers' & State Employees' Retirement System is allowed to be reemployed with the General Assembly on a part-time, temporary or full-time basis and not be required to become a contributing member of the retirement system. If a retiree is reemployed with another State agency or department on a full-time basis, the retirement benefit is suspended and the employee becomes a contributing member of the retirement system. This will conform the treatment of retirees reemployed with the General Assembly as a full-time permanent employee to those reemployed with other State agencies or departments.

**EFFECTIVE DATE:** When it becomes law.

**ESTIMATED IMPACT ON STATE:** Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the impact on the System would be negligible.

**SPECIAL PROVISION:** Section 28.13 MODIFY BENEFIT RESTRICTIONS FOR REEMPLOYED RETIREES IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System and Local Governmental Employees' Retirement System

**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Fund

**BILL SUMMARY:** Under the present law, a retiree is allowed to be reemployed with a State employer participating in the retirement system and earn in any calendar year, 50% of the salary earned during the 12 months of service prior to retirement or \$23,600, whichever is greater. This will also apply the earning test of 50% of salary on the income earned with a State employer participating in the retirement system during the 12 months immediately following retirement.

Will apply the same earning test to retired local governmental employees who are reemployed with a unit of local government.

**EFFECTIVE DATE:** July 1, 2002

**ESTIMATED IMPACT ON STATE:** Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that there could be some small savings but it would be negligible.

**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, 2000 actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

**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, 2000 actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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.

**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, 2000 actuarial valuation of the fund. The data included 470 active members with an annual payroll of \$43.5 million and 368 retired members in receipt of annual pensions totaling \$14.5 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, 2000 actuarial valuation of the fund. The data included 172 active members with an annual payroll of \$3.7 million and 189 retired members in receipt of annual pensions totaling \$1,055,125. 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 prorate. 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.

**Firemen and Rescue Workers Pension Fund**

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2001 actuarial valuation of the fund. The data included 30,514 active members and 8,093 retired members in receipt of annual pensions totaling \$14.7 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1974 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age 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.

**SOURCES OF DATA:** System Actuary - Buck Consultant, Inc.  
General Assembly Actuary - Hartman & Associates, LLC

**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.

**PREPARED BY:** Stanley Moore

**APPROVED BY:** James D. Johnson

**DATE:** June 25, 2002



**Signed Copy Located in the NCGA Principal Clerk's Offices**