

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

**BILL NUMBER:** Senate Bill 1307

**SHORT TITLE:** Increase Retirement Benefits

**SPONSOR(S):** Senator Harris

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative 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 1.87% for each year of service, grants an adjusting increase of 3.3% to retirees as a result of the accrual rate change and provides a post-retirement increase of 1.25% in the benefits of retirees. **Consolidated Judicial Retirement System** - Provides a post-retirement increase of 1.25 % in the benefits of retirees. **Legislative Retirement System** - Provides a post-retirement increase of 1.25% in the benefits of retirees. **Local Governmental Employees' Retirement System** - Increases the accrual rate for active members from 1.78% to 1.87% for each year of service, grants an adjusting increase of 3.3% to retirees as a result of the accrual rate change and provides a post-retirement increase of 1.25% in the benefits of retirees.

**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 2.81% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$208.0M	\$221.4M	\$235.7M	\$250.8M	\$266.9M
Highway Fund	\$ 10.4M	\$ 11.0M	\$ 11.7M	\$ 12.5M	\$ 13.3M
Receipt Funds	<u>\$ 69.7M</u>	<u>\$ 74.2M</u>	<u>\$ 79.0M</u>	<u>\$ 84.0M</u>	<u>\$ 89.4M</u>
<b>TOTAL COST</b>	<b>\$288.1M</b>	<b>\$306.6M</b>	<b>\$326.4M</b>	<b>\$347.3M</b>	<b>\$369.7M</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 2.79% 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	\$206.6M	\$219.9M	\$234.0M	\$249.0M	\$265.0M
Highway Fund	\$ 10.3M	\$ 10.9M	\$ 11.6M	\$ 12.4M	\$ 13.2M
Receipt Funds	<u>\$ 69.2M</u>	<u>\$ 73.7M</u>	<u>\$ 78.4M</u>	<u>\$ 83.4M</u>	<u>\$ 88.8M</u>
<b>TOTAL COST</b>	<b>\$286.1M</b>	<b>\$304.5M</b>	<b>\$324.0M</b>	<b>\$344.9M</b>	<b>\$367.0M</b>

**Consolidated Judicial Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost to be .54% of payroll.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M

General Assembly Actuary: Hartman & Associates estimates the cost to be .59% of payroll.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M

### **Legislative Retirement System**

Retirement System Actuary: Charles Dunn estimates the cost to be .61% of payroll.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$21,960	\$21,960	\$21,960	\$21,960	\$21,960

General Assembly Actuary: Hartman & Associates estimates the cost to be .63% of payroll.

	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
General Fund	\$22,680	\$22,680	\$22,680	\$22,680	\$22,680

### **ESTIMATED IMPACT ON LOCAL GOVERNMENTS:**

#### **Local Governmental Employee's Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost will be 1.34% 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>	\$51.1M	\$54.4M	\$58.0M	\$61.8M	\$65.9M

General Assembly Actuary: Hartman & Associates estimates the cost will be 1.30% 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>	\$49.5M	\$52.8M	\$56.3M	\$60.0M	\$64.0M

### **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.

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

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

**FISCAL RESEARCH DIVISION: (919) 733-4910.**

**PREPARED BY:** Stanley Moore  
**APPROVED BY:** James D. Johnson  
**DATE:** July 9, 2002



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