

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Actuarial Note

### RETIREMENT

**BILL NUMBER:** House Bill 725 (First Edition)  
**SHORT TITLE:** Purchase Service/Certain Employment.  
**SPONSOR(S):** Representative Cole

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**FUNDS AFFECTED:** Funds of individual members of the Local Governmental Employees' Retirement System who wish to make a purchase of service.

**SYSTEM OR PROGRAM AFFECTED:** Local Governmental Employees' Retirement System.

**EFFECTIVE DATE:** July 1, 2009

**BILL SUMMARY:** The bill will allow any member of the Local Governmental Employees' Retirement System with five or more years of service to purchase a maximum of 10 years of creditable service for nonqualified employment with an economic development organization that receives at least fifty percent (50%) of its funding from local government. The member will pay the "full actuarial cost" of the additional service credits, which is the full liability that the service will put upon the System.

The member must obtain written verification of the service from the nonprofit corporation.

**ESTIMATED IMPACT ON LOCAL GOVERNMENTS:** Both the Retirement System Actuary, Buck Consultants, and the General Assembly Actuary, Hartman & Associates, agree that there would be no cost as a result of the enactment of this bill.

#### **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:** Buck Consultants  
Hartman & Associates, LLC

**TECHNICAL CONSIDERATIONS:** The Retirement System Actuary, Buck Consultants, in their letter of April 3, 2009, states “IRC Section 415(n) allows the purchase of non-employer service without applying the contribution limits of IRC Section 415 to the contribution to the plan as long as the purchased service meets certain restrictions. One of these restrictions limits the purchase of nonqualified service, as defined in IRS Section 415(n), to five years.”

**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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**APPROVED BY:**

Bob Weiss  
on behalf of Marilyn Chism, Director  
Fiscal Research Division



**DATE:** April 5, 2009

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