GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 2066 (Third Edition)

SHORT TITLE: Special Retirement Allowances.

SPONSOR(S): Representative Bryant

FUNDS AFFECTED: Any State or local employee who has funds in the Supplemental Retirement Income Plan and the Public Employee Deferred Compensation Plan.

SYSTEM OR PROGRAM AFFECTED: Teachers' & State Employees' Retirement System, Local Governmental Employees' Retirement System, the Supplemental Retirement Income Plan and the Public Employee Deferred Compensation Plan.

EFFECTIVE DATE: January 1, 2011 for retirees on or after that date and July 1, 2011 for retirees as of December 31, 2010.

BILL SUMMARY:
Sections 1 and 4. Presently all State and local law enforcement officers are eligible to transfer the entire balance of the Supplemental Retirement Income Plan {401(k) Plan}to either the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System and receive a life annuity based on their age. This bill allows for the transfer of <u>any portion</u> of the fund balance rather than the entire fund balance. Any State or local officer with five or more years of service as of June 30, 2010 will continue to have this benefit.

Sections 2,3, 5 and 6: Creates a Special Retirement Allowance. This will allow all members of the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System to transfer any portion of their fund balances in either the Supplemental Retirement Income Plan or the Public Employee Deferred Compensation Plan on a onetime election at any time at or after retirement and receive a special retirement allowance which will be based on the amount of funds and age of the member.

The Board of Trustees may establish a minimum amount that must be transferred. The Board shall adopt straight life annuity factors on the basis of yields on U.S. Treasury Bonds and mortality and other tables as may be necessary based upon actual experience. A single set of mortality and other tables will be used for all members based on the age of the member and the election of post-retirement allowance. The Board shall modify the mortality and such other tables every five years based upon the five-year experience study as required. A member shall be taxed for North Carolina State Income Tax purposes on the special retirement allowance the same as if that special retirement allowance had been paid directly by the Supplemental Retirement Income Plan of North Carolina.

Requires the Board of Trustees to provide educational materials to members who apply for the one-time contributions transfer under the section that describe the special retirement allowance, and explain the relationship between the transferred balance and the monthly benefit, and explain how the member's heirs may be impacted by the member's election, including any costs or fees. The bill also allows the Supplemental Retirement Board of Trustees to assess a one-time flat administrative fee not to exceed the actual cost required to administer the transfers.

The special retirement allowance shall be paid to the member for life. The Board of Trustees shall allow a member two payment plan options. The first to be for life with a guaranteed number of months and the second for life with a guaranteed return of the amount transferred.

ESTIMATED IMPACT ON STATE: Both, Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, agree that the changes would not be expected to produce a significant financial impact to the retirement systems.

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, 2008 actuarial valuation of the fund. The data included 325,618 active members with an annual payroll of $13.3 billion, 151,353 retired members in receipt of annual pensions totaling $3.1 billion and actuarial value of assets equal to $55.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) average salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables (tables are not adjusted for male teachers, set forward one year for female teachers, set forward two years for general employees and law enforcement officers and set forward two years for the beneficiaries of deceased member), and (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a frozen 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, 2008 actuarial valuation of the fund. The data included 123,524 active members with an annual payroll of $4.97 billion, 44,311 retired members in receipt of annual pensions totaling $744.7 million and actuarial value of assets equal to $17.1 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 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: 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.
SOURCES OF DATA:

TECHNICAL CONSIDERATIONS: None

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