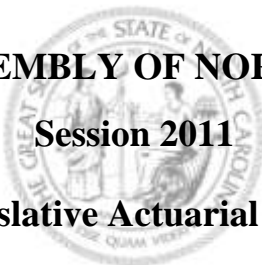


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2011

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 701 (Second Edition)

SHORT TITLE: TSERS/LGERS Return of Contributions.

SPONSOR(S): Senator Meredith

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System, and local funds for the Local Governmental Employees' Retirement System

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

EFFECTIVE DATE: January 1, 2012

BILL SUMMARY: Amends the law to delete the requirement that members of Teachers and State Employee's Retirement System and the Local Governmental Employees' Retirement System have five years of membership service in order to be paid accumulated interest if the member leaves the retirement system for reason other than death or retirement. The accumulated regular interest rate is 4% compounded annually on the balance of the previous year.

ESTIMATED IMPACT ON STATE: Buck Consultants, the Retirement Systems' actuary estimates the normal cost to increase by 0.01% of the payroll for all members of the Teachers' and State Employees' Retirement System.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General Fund	\$988,300	\$1,038,506	\$1,091,262	\$1,146,698	\$1,204,950
Highway Fund	\$44,500	\$46,761	\$49,136	\$51,632	\$54,255
Receipt Funds	<u>\$380,000</u>	<u>\$399,304</u>	<u>\$419,589</u>	<u>\$440,904</u>	<u>\$463,302</u>
	\$1,412,800	\$1,484,570	\$1,559,986	\$1,639,234	\$1,722,507

Hartman & Associates estimates the normal cost to increase by 0.02% of the payroll for all members of the Teachers' and State Employees' Retirement System.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General Fund	\$1,976,600	\$2,077,011	\$2,182,523	\$2,293,396	\$2,409,900
Highway Fund	\$89,000	\$93,521	\$98,272	\$103,264	\$108,510
Receipt Funds	<u>\$760,000</u>	<u>\$798,608</u>	<u>\$839,177</u>	<u>\$881,807</u>	<u>\$926,603</u>
	\$2,825,600	\$2,969,140	\$3,119,973	\$3,278,467	\$3,445,014

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Buck Consultants and Hartman & Associates estimates the normal cost to increase by 0.01% of payroll for all members of the Local Governmental Employees' Retirement System. The estimated annual cost is as follows:

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Normal Cost	\$554,000	\$580,980	\$609,274	\$638,945	\$670,062

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, 2009 actuarial valuation of the System. The data included 316,647 active members with an annual payroll of \$13.3 billion, 156,791 retired members in receipt of annual pensions totaling \$3.2 billion and actuarial value of assets equal to \$55.8 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of nine years. Detailed information concerning these assumptions and methods are 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, 2009 actuarial valuation of the fund. The data included 123,398 active members with an annual payroll of \$5.2 billion, 46,557 retired members in receipt of annual pensions totaling \$795.8 million and actuarial value of assets equal to \$17.7 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. 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: Based on data from the Retirement Systems Division of the Department of State Treasurer, the total amount of interest that was forfeited during calendar years 2009 and 2010 was \$4,279,577 for the State System and \$1,248,925 for the Local System.

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: Lynn Muchmore, Director
Fiscal Research Division

DATE: June 8, 2011



Signed Copy Located in the NCGA Principal Clerk's Offices