

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 1045

SHORT TITLE: 28-Year Retirement Window

SPONSOR(S): Representatives Black, Grady, Preston, and Warner

FUNDS AFFECTED: General (X) Highway (X) Local ()

BILL SUMMARY: Establishes a one year window which will allow members of the Teachers' and State Employees' Retirement System to be eligible to retire on unreduced benefits with 28 years of service rather than 30 years and to apply reduction factor for early retirement based on 28 years rather than 30 years.

EFFECTIVE DATE: July 1, 1995 through June 1, 1996

SYSTEM AFFECTED Teachers' and State Employees' Retirement System.

ESTIMATED IMPACT ON STATE

SYSTEM ACTUARY

The System's actuary estimates the cost to be .41% of payroll which would be \$20.2 million from the General Fund and \$1.8 million from the Highway Fund for 1995-96 if all the members who qualified retired during the one year window. The actuarial assumption of the percentage of members who will retire when first eligible averages 22% for ages 50 to 60 in the annual valuations, so the below cost estimates are based on the assumption that 25% of those eligible to retire will retire during this one year window:

	<u>FY</u> <u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	1995-96	1996-97	1997-98	1998-99	1999-2000
GENERAL FUND	\$5.1m	\$5.3m	\$5.7m	\$6.0m	\$6.3m
HIGHWAY FUND	\$0.5m	\$0.5m	\$0.5m	\$0.5m	\$0.6m

GENERAL ASSEMBLY ACTUARY

The General Assembly's actuary estimates the cost to be .35% of payroll which would be \$17.3 million from the General Fund and \$1.5 million from the Highway Fund for 1995-96 if all the members who qualified retired during the one year window. The below cost is based on the assumption that 25% of those eligible to retire during this window will retire:

<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
<u>FY</u>			

	1995-96	1996-97	1997-98	1998-99	1999-2000
GENERAL FUND	\$4.3m	\$4.6m	\$4.8m	\$5.1m	\$5.4m
HIGHWAY FUND	\$0.4m	\$0.4m	\$0.4m	\$0.5m	\$0.5m

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ASSUMPTIONS AND METHODOLOGY:

Teacher's & 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, 1993 actuarial valuation of the fund. The data included 243,194 active members with an annual payroll of \$5.976 billion and 77,729 retired members in receipt of annual pensions totaling \$798.5 million. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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 an unfunded liquidation period of eight 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 - Dilts, Umstead & Dunn

FISCAL RESEARCH DIVISION: 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. The above cost estimates are based on the salary base as of July 1, 1995 projected at the average annual increase in compensation base for each system over the last five years.

733-4910

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DATE: May 29, 1995



Signed Copy Located in the NCGA Principal Clerk's Offices