

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** Senate Bill 1463

**SHORT TITLE:** 1998 Retirement Benefits Act

**SPONSOR(S):** Senator Jenkins

**SYSTEM OR PROGRAM AFFECTED:** Teacher's & 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 1.80% to 1.81% for each year of service, grants an adjusting increase of 0.5% to retirees as a result of the accrual rate change and provides a post-retirement increase of three and nine-tenths percent (3.9%) in the benefits of retirees. **Consolidated Judicial Retirement System** - Provides a post-retirement increase of four percent (4%) in the benefits of retirees and reduces the contribution rate by 3.08%. **Legislative Retirement System** - Provides a post-retirement increase of four percent (4%) in the benefits of retirees. **Local Governmental Employees' Retirement System** - Increases the accrual rate for active members from 1.76% to 1.77% for each year of service, grants an adjusting increase of 0.5% to retirees as a result of the accrual rate change and provides a post-retirement increase of four percent (4%) in the benefits of retirees.

The bill also set the State's employer contribution rates as a percent of covered salaries for 1998-99

**EFFECTIVE DATE:** July 1, 1998

**ESTIMATED IMPACT ON STATE:**

**Teachers' and State Employee's Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost to be 1.35% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Fund	\$ 79.4m	\$ 82.8m	\$ 86.4m	\$ 90.1m	\$ 93.9m
Highway Fund	\$ 6.8m	\$ 7.1m	\$ 7.4m	\$ 7.8m	\$ 8.1m
Receipt Funds	<u>\$ 18.3m</u>	<u>\$ 19.1m</u>	<u>\$ 20.0m</u>	<u>\$ 20.8m</u>	<u>\$ 21.7m</u>
Total	\$104.6m	\$109.1m	\$113.8m	\$118.7m	\$123.7m

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.28% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Fund	\$ 75.3m	\$ 78.5m	\$ 81.9m	\$ 85.4m	\$ 89.1m
Highway Fund	\$ 6.5m	\$ 6.8m	\$ 7.1m	\$ 7.4m	\$ 7.7m
Receipt Funds	<u>\$ 17.4m</u>	<u>\$ 18.1m</u>	<u>\$ 18.9m</u>	<u>\$ 19.7m</u>	<u>\$ 20.6m</u>
Total	\$ 99.2m	\$103.4m	\$107.9m	\$112.5m	\$117.3m

### **Consolidated Judicial Retirement System**

The bill reduces the State's contribution to the System by 3.08% which reduces the General Fund contribution as follows:

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Fund	\$1.2m	\$1.3m	\$1.4m	\$1.4m	\$1.5m

Retirement System Actuary: Buck Consultants estimates the cost of the 4% COLA to be 1.61% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Fund	\$644,000	\$676,522	\$710,686	\$746,576	\$784,278

General Assembly Actuary: Hartman & Associates estimates the cost of the 4% COLA to be 1.67% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Fund	\$668,000	\$701,734	\$737,172	\$774,399	\$813,506

### **Legislative Retirement System**

Both actuaries, Dilts, Umstead & Dunn and Hartman & Associates, estimate the cost of the 4% COLA to be 1.85% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
General Fund	\$66,600	\$66,600	\$66,600	\$66,600	\$66,600

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

Retirement System Actuary: Buck Consultants estimates the cost to be 0.52% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
Local Funds	\$15.5m	\$16.5m	\$17.5m	\$18.7m	\$19.9m

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.53% of payroll.

	1998-99	1999-2000	2000-01	2001-02	2002-03
Local Funds	\$15.8m	\$16.8m	\$17.9m	\$19.0m	\$20.2m

## **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, 1996 actuarial valuation of the fund. The data included 263,920 active members with an annual payroll of \$6.845 billion and 88,605 retired members in receipt of annual pensions totaling \$1.096 billion. 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 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.

### **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, 1996 actuarial valuation of the fund. The data included 454 active members with an annual payroll of \$36.6 million and 332 retired members in receipt of annual pensions totaling \$10.5 million. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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 an unfunded liquidation period of ten 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, 1997 actuarial valuation of the fund. The data included 167 active members with an annual payroll of \$3.6 million and 178 retired members in receipt of annual pensions totaling \$950,788. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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.

### **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, 1996 actuarial valuation of the fund. The data included 104,454 active members with an annual

payroll of \$2.594 billion and 24,028 retired members in receipt of annual pensions totaling \$227.7 million. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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.

**SOURCES OF DATA: :** System Actuary - Buck Consultant, Inc.  
General Assembly Actuary - Hartman & Associates  
Legislative System 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 bases on the salary base as of July 1, 1998 projected at the average annual increase in compensation base for each system over the last five years. The Legislative System salary base is not projected to increase since salaries have been the same for several years.

**(919) 733-4910**

**PREPARED BY:** Stanley Moore

**APPROVED BY:** Tom Covington

**DATE:** June 10, 1998



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