

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** Senate Bill 1465

**SHORT TITLE:** Modify Election of Optional Allowance

**SPONSOR(S):** Senator Jenkins

**SYSTEM AFFECTED:** Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System and the Local Governmental Employees' Retirement System

**BILL SUMMARY:** : Allows a retiree of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System or Local Governmental Employees' Retirement System, who has selected to receive the retirement allowance under Option 2 (100% J & S) or Option 3 (50% J & S) and named the spouse to receive the benefits after the retirees death, to change the beneficiary if: (1) the spouse predeceases the retiree, (2) the retiree remarries and (3) names the new spouse within 90 days of the marriage. The benefit will be the actuarial equivalent of the benefit in effect immediately prior to the change.

**EFFECTIVE DATE:** When it becomes law.

**ESTIMATED IMPACT**

Retirement System Actuary: Buck Consultants estimates that the cost to the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System or Local Governmental Employees' Retirement System would be negligible.

General Assembly Actuary: Hartman & Associates estimates that there should be no cost to the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System or Local Governmental Employees' Retirement System but would add to administrative cost.

Dilts, Umstead & Dunn estimates no cost to the Legislative Retirement System.

**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, 1996 actuarial valuation of the fund. The data included 164 active members with an annual payroll of \$3.6 million and 160 retired members in receipt of annual pensions totaling \$763,680. 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:** : Retirement System Actuary - Buck Consultant, Inc.  
General Assembly Actuary - Hartman & Associates, LLC  
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.

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Official

**Fiscal Research Division**

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