

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 1035

SHORT TITLE: Early Retirement Amendment

SPONSOR(S): Representative Moore

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

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Funds

BILL SUMMARY: A member of the Retirement System can retire on early retirement between ages 50 and 60 with service of between 20 and 30 years. The present reduction factor is 5% for each year a member is short of 30 year. The bill reduces the early retirement reduction factor from 5% for each year short of 30 years to 3% per year for each year short of 30 years.

EFFECTIVE DATE: July 1, 1999

ESTIMATED IMPACT ON STATE:

Retirement System Actuary: Buck Consultant estimates the cost to be .42% of payroll. The cost estimates are based on the salary base as of July 1, 1999 projected at the average annual increase in compensation base over the last five years of 5.3%.

	<u>FY</u> 1999-00	<u>FY</u> 2000-01	<u>FY</u> 2001-02	<u>FY</u> 2002-03	<u>FY</u> 2003-04
General Fund	\$26.3m	\$27.7m	\$29.2m	\$30.7m	\$32.4m
Highway Fund	\$2.1m	\$2.2m	\$2.3m	\$2.4m	\$2.5m
Receipt Funds	<u>\$7.1m</u>	<u>\$7.5m</u>	<u>\$7.9m</u>	<u>\$8.3m</u>	<u>\$8.7m</u>
Total Annual Cost	\$35.5m	\$37.4m	\$39.4m	\$41.4m	\$43.6m

General Assembly Actuary: Hartman & Associates estimates the cost to be .44% of payroll. The cost estimates are based on the salary base as of July 1, 1999 projected at the average annual increase in compensation base over the last five years of 5.3%.

	<u>FY</u> 1999-00	<u>FY</u> 2000-01	<u>FY</u> 2001-02	<u>FY</u> 2002-03	<u>FY</u> 2003-04
General Fund	\$27.6m	\$29.0m	\$30.6m	\$32.2m	\$33.9m
Highway Fund	\$2.2m	\$2.3m	\$2.4m	\$2.5m	\$2.6m
Receipt Funds	<u>\$7.4m</u>	<u>\$7.8m</u>	<u>\$8.2m</u>	<u>\$8.7m</u>	<u>\$9.1m</u>
Total Annual Cost	\$37.2m	\$39.2m	\$41.2m	\$43.4m	\$45.6m

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, 1997 actuarial valuation of the fund. The data included 271,128 active members with an annual payroll of \$7.374 billion and 92,236 retired

members in receipt of annual pensions totaling \$1.231 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (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.

SOURCES OF DATA: Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

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: Tom Covington

DATE: Thursday, April 29, 1999



Signed Copy Located in the NCGA Principal Clerk's Offices