

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: Senate Bill 1236

SHORT TITLE: Change Retirement Benefits

SPONSOR(S): Senator Phillips

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: Provides a post-retirement increase of 3.6% in the benefits of retirees of the Teachers' and State Employees' Retirement System, a post-retirement increase of 2.6% in the benefits of retirees of the Consolidated Judicial Retirement System, a post-retirement increase of 3.6% in the benefits of retirees of the Legislative Retirement System, a post-retirement increase of 3.8% in the benefits of retirees of the Local Governmental Employees' Retirement System and increases the formula in Local Governmental Employees' Retirement System from 1.77% for each year of service to 1.78% and grants an adjusting increase of 0.6% to local retirees.

EFFECTIVE DATE: July 1, 2000

ESTIMATED IMPACT ON STATE:

Teachers' and State Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the cost of the 3.6% COLA to be 0.94% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$ 63.8m	\$ 67.7m	\$ 71.7m	\$ 76.0m	\$ 80.6m
Highway Fund	\$ 5.0m	\$ 5.3m	\$ 5.6m	\$ 5.9m	\$ 6.3m
Receipt Funds	<u>\$ 17.2m</u>	<u>\$ 18.2m</u>	<u>\$ 19.3m</u>	<u>\$ 20.5m</u>	<u>\$ 21.7m</u>
Total	\$ 86.0m	\$ 91.2m	\$ 96.6m	\$102.4m	\$108.6m

General Assembly Actuary: Hartman & Associates estimates the cost of the 3.6% COLA to be 0.89% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$ 60.4m	\$ 64.0m	\$ 67.9m	\$ 72.0m	\$ 76.3m
Highway Fund	\$ 4.7m	\$ 5.0m	\$ 5.3m	\$ 5.6m	\$ 5.9m
Receipt Funds	<u>\$ 16.3m</u>	<u>\$ 17.3m</u>	<u>\$ 18.3m</u>	<u>\$ 19.4m</u>	<u>\$ 20.6m</u>
Total	\$ 81.4m	\$ 86.3m	\$ 91.5m	\$ 97.0m	\$102.8m

There are actuarial gains within the System to do this increase without additional appropriations.

Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost of the 2.6% COLA to be .97% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$455,900	\$486,081	\$518,259	\$552,568	\$589,148

General Assembly Actuary: Hartman & Associates estimates the cost of the 2.6% COLA to be .93% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$477,100	\$466,036	\$496,888	\$529,782	\$564,853

There are actuarial gains within the System to do this increase without additional appropriations.

Legislative Retirement System

Retirement System Actuary: Charles Dunn estimates the cost of the 3.6% COLA to be 1.66% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$59,760	\$59,760	\$59,760	\$59,760	\$59,760

General Assembly Actuary: Hartman & Associates estimates the cost of the 3.6% COLA to be 1.79% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$64,440	\$64,440	\$64,440	\$64,440	\$64,440

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the cost of the formula increase and the 3.8% COLA to be .55% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
Local Funds	\$18.1m	\$19.3m	\$20.5m	\$21.8m	\$23.2m

General Assembly Actuary: Hartman & Associates estimates the cost of the formula increase and the 3.8% COLA to be .51% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
Local Funds	\$16.8m	\$17.9m	\$19.0m	\$20.2m	\$21.6m

There are actuarial gains within the System to do this increase without additional appropriations.

**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, 1998 actuarial valuation of the fund. The data included 278,558 active members with an annual payroll of \$7.995 billion and 97,820 retired members in receipt of annual pensions totaling \$1.375 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 a 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, 1998 actuarial valuation of the fund. The data included 478 active members with an annual payroll of \$40.9 million and 343 retired members in receipt of annual pensions totaling \$12.1 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (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 a 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.

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, 1998 actuarial valuation of the fund. The data included 167 active members with an annual payroll of \$3.6 million and 181 retired members in receipt of annual pensions totaling \$965,102. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (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, 1998 actuarial valuation of the fund. The data included 108,904 active members with an annual payroll of \$2.930 billion and 26,975 retired members in receipt of annual pensions totaling \$291.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (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 Charles 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, 2000 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: James D. Johnson

DATE: May 31, 2000



Signed Copy Located in the NCGA Principal Clerk's Offices