

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 547

SHORT TITLE: Postretirement Earnings

SPONSOR(S): Representative Gene Arnold

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Under the present law, a retiree is allowed to earn in any calendar year, 50% of the salary earned during the 12 months of service prior to retirement or \$23,240, whichever is greater. The present law removes all reemployment earnings restrictions for any retiree who returns as a teacher, who has not been employed in any capacity, other than as a substitute, with a public school for the twelve months immediately preceding the date of reemployment.

This bill will reduce the 12 months of retirement requirement to 6 months of retirement for teachers. Also applies the earnings test of 50% of salary or \$23,240 to the 12-month period immediately following retirement as well as any calendar year.

EFFECTIVE DATE: July 1, 2001 and expires June 30, 2003.

ESTIMATED IMPACT ON STATE: Teachers' and State Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 0.06% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$4.3M	\$4.6M	\$4.8M	\$5.1M	\$5.4M
Highway Fund	\$0.2M	\$0.2M	\$0.2M	\$0.3M	\$0.3M
Receipt Funds	<u>\$1.3M</u>	<u>\$1.4M</u>	<u>\$1.5M</u>	<u>\$1.5M</u>	<u>\$1.6M</u>
TOTAL COST	\$5.8M	\$6.2M	\$6.5M	\$6.9M	\$7.3M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.044% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$3.1M	\$3.3M	\$3.5M	\$3.8M	\$4.0M
Highway Fund	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M
Receipt Funds	<u>\$1.0M</u>	<u>\$1.0M</u>	<u>\$1.1M</u>	<u>\$1.1M</u>	<u>\$1.2M</u>
TOTAL COST	\$4.3M	\$4.5M	\$4.8M	\$5.1M	\$5.4M

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, 1999 actuarial valuation of the fund. The data included 285,784 active members with an annual payroll of \$8.4 billion and 102,939 retired members in receipt of annual pensions totaling \$1.510 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.

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

TECHNICAL CONSIDERATIONS: The System's tax attorney and actuary have stated that the Internal Revenue Service does not have a definitive definition of the break in service that constitutes a "bona fide termination of employment". If the break in service under this bill were deemed insufficient then the Systems tax qualification could be at risk.

FISCAL RESEARCH DIVISION 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

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APPROVED BY: James D. Johnson

DATE: May 1, 2001



Signed Copy Located in the NCGA Principal Clerk's Offices