

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

BILL NUMBER: House Bill 1414 (Conference Committee)

SHORT TITLE: 2004 Appropriations Act.

SPECIAL PROVISION: **PROVIDES INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM AND THE LEGISLATIVE RETIREMENT SYSTEM.**

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Legislative Retirement System and the Consolidated Judicial Retirement System.

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Provides a post-retirement increase of 1.7% in the benefits of retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System.

EFFECTIVE DATE: July 1, 2004

ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System

Retirement System Actuary: Mellon estimates the cost to be 0.53% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$40.5M	\$42.9M	\$45.3M	\$47.9M	\$50.7M
Highway Fund	\$ 2.0M	\$ 2.2M	\$ 2.3M	\$ 2.4M	\$ 2.5M
Receipt Funds	<u>\$ 13.9M</u>	<u>\$ 14.7M</u>	<u>\$15.5M</u>	<u>\$16.4M</u>	<u>\$17.4M</u>
TOTAL COST	\$ 56.5M	\$ 59.7M	\$ 63.1M	\$ 66.8M	\$ 70.6M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.49% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$37.5M	\$39.6M	\$41.9M	\$44.3M	\$46.8M
Highway Fund	\$ 1.9M	\$ 2.0M	\$ 2.1M	\$ 2.2M	\$ 2.4M
Receipt Funds	<u>\$12.9M</u>	<u>\$13.6M</u>	<u>\$14.4M</u>	<u>\$15.2M</u>	<u>\$16.1M</u>
TOTAL COST	\$52.2M	\$55.2M	\$58.4M	\$61.7M	\$62.3M

There are actuarial gains in the System equal to .41% of payroll so the cost is .12% of payroll, which requires an appropriation as follows:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$ 9.2M	\$ 9.7M	\$10.3M	\$10.9M	\$11.5M
Highway Fund	\$ 0.5M	\$ 0.5M	\$ 0.5M	\$ 0.5M	\$ 0.6M
Receipt Funds	\$ 3.1M	\$ 3.3M	\$ 3.5M	\$ 3.7M	\$ 3.9M
TOTAL COST	\$12.8M	\$13.5M	\$14.3M	\$ 15.1M	\$ 16.0M

Consolidated Judicial Retirement System

Retirement System Actuary: Mellon estimates the cost to be 0.82% of the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$ 0.4M	\$ 0.4M	\$ 0.5M	\$ 0.5M	\$ 0.5M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.77% of the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$ 0.4M	\$ 0.4M	\$ 0.4M	\$ 0.5M	\$ 0.5M

There are actuarial gains in the Consolidated Judicial Retirement System equal to .15% of payroll, which requires an appropriation as follows:

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$ 0.3M	\$ 0.4M	\$ 0.4M	\$ 0.4M	\$ 0.4M

Legislative Retirement System. Both the Retirement System actuary, Charles Dunn, and the General Assembly’s actuary, Hartman & Associates, estimate the cost to be 0.82% of the payroll of all members of the Legislative Retirement System.

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Fund	\$29,520	\$29,520	\$29,520	\$29,520	\$29,520

There are actuarial gains in Legislative Retirement System so this increase will not require an appropriation.

SPECIAL PROVISION: INCREASE BENEFITS FOR MEMBER OF THE FIREMEN’S AND RESCUE SQUAD WORKERS’ PENSION FUND

SYSTEM OR PROGRAM AFFECTED: Firemen’s and Rescue Squad Workers' Pension Fund.

FUNDS AFFECTED: General Fund

BILL SUMMARY: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$158 to \$161.

EFFECTIVE DATE: July 1, 2004

ESTIMATED IMPACT ON STATE: Both the System actuary, Mellon, and the General Assembly actuary, Hartman & Associates, agree that the cost will be as follows:

	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07	<u>FY</u> 2007-08	<u>FY</u> 2008-09
Benefit Increase	\$886,000	\$886,000	\$886,000	\$886,000	\$886,000

There are actuarial gains within the Fund of \$220,395 so the actual appropriation would be \$665,000 to fund this increase.

SPECIAL PROVISION: EXTEND THE SUNSET FOR RETIRED TEACHERS RETURNING TO THE CLASSROOM WITHOUT LOSS OF RETIREMENT BENEFITS/OPTION UNTIL JUNE 30, 2005.

SYSTEM OR PROGRAM AFFECTED: Teachers' & 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 or the twelve months following retirement, 50% of the salary earned during the 12 months of service prior to retirement or \$24,620, whichever is greater. The law prior to June 30, 2004, removed all reemployment earnings restrictions for any retiree who returned as a teacher, who had not been employed in any capacity, other than as a substitute or part-time tutor, with a public school for the six months immediately preceding the date of reemployment.

This special provision will extend the sunset from June 30, 2004 to June 30, 2005.

EFFECTIVE DATE: June 30, 2004

ESTIMATED IMPACT ON STATE: The System's actuary, Mellon, and the General Assembly's actuary, Hartman & Associates, both estimate the cost to be 0.04% of the payroll of all members of the Teachers' and State Employee's Retirement System. However, the special provision will require each local school administrative unit to make a contribution to the Retirement System equal to 11.70% of the salary for all retired employees, who are reemployed with that local school administrative unit. The employer contribution will fund the cost of extending the sunset until June 30, 2005.

SPECIAL PROVISION: CLARIFY THAT PROBATION AND PAROLE OFFICERS ARE COVERED UNDER THE \$50,000 LINE-OF-DUTY DEATH BENEFIT.

SYSTEM OR PROGRAM AFFECTED: Law Enforcement Officers', Firemen's, Rescue Squad Workers' and Civil Air Patrol Members' Death Benefits

FUNDS AFFECTED: General Fund

BILL SUMMARY: Includes probation and parole officers in the line of duty death benefit of \$50,000.

EFFECTIVE DATE: When it becomes effective.

ESTIMATED IMPACT ON STATE: Mellon estimates the cost to be \$25,000 annually.

	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07	<u>FY</u> 2007-08	<u>FY</u> 2008-09
Benefit Increase	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000

The General Assembly's actuary, Hartman & Associates, estimates the cost to be \$20,000 annually.

	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07	<u>FY</u> 2007-08	<u>FY</u> 2008-09
Benefit Increase	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000

ASSUMPTIONS AND METHODOLOGY: Cost estimates are based on the number of covered individuals and the number of death benefits payable from the Plan in recent years.

ASSUMPTIONS AND METHODOLOGY:

Teachers' & 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, 2002 actuarial valuation of the fund. The data included 296,377 active members with an annual payroll of \$9.7 billion and 118,129 retired members in receipt of annual pensions totaling \$2 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, 2002 actuarial valuation of the fund. The data included 489 active members with an annual payroll of \$48.4 million and 401 retired members in receipt of annual pensions totaling \$17.8 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, 2002 actuarial valuation of the fund. The data included 169 active members with an annual payroll of \$3.6 million and 205 retired members in receipt of annual pensions totaling \$1.2 million. 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.

Firemen's and Rescue Squad Workers' Pension Fund: The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2003, actuarial valuation of the fund. The data included 32,166 active members and 8,903 retired members in receipt of annual pensions totaling \$16.9 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1974 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age 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 - Mellon.
General Assembly Actuary - Hartman & Associates, LLC
Legislative System Actuary – Charles W. Dunn

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