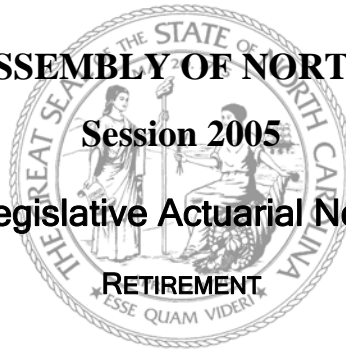


GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note



BILL NUMBER: House Bill 1877 (First Edition)
SHORT TITLE: Purchase Military Service/Retirement.
SPONSOR(S): Representatives Eddins, Dickson, and Glazier

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Fund and Local Funds for the Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and the Local Government Employees' Retirement System.

EFFECTIVE DATE: July 1, 2006

BILL SUMMARY: Current law provide for purchase of military service by a person who became a member of the Teachers' and State Employees' Retirement System before July 1, 1981, or the Local Government Employees' Retirement System before January 1, 1988. The bill extends ability to purchase military service to all members of both retirement systems regardless of date of membership and provides the method for calculating the resulting increase in benefits when the service is purchased by a retired member.

To be eligible to purchase military service, a member must complete ten years of membership service and then has three years in order to purchase the military service.

ESTIMATED IMPACT: Retirement System Actuary: Buck Consultants estimates the cost to be 0.04% of the payroll of all members of the Teachers' and State Employees' Retirement System. This estimate is based on the assumption that there are 5,000 members eligible to purchase 2 years of military service.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$3.4M	\$3.5M	\$3.7M	\$3.8M	\$4.0M
Highway Fund	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M
Receipt Funds	\$1.1M	\$1.1M	\$1.2M	\$1.2M	\$1.3M
TOTAL COST	\$4.6M	\$4.8M	\$5.0M	\$5.2M	\$5.5M

General Assembly Actuary: Hartman & Associates does not have any data on which to base the estimated cost. However, given the high potential number of military veterans, the cost is estimated to be significant.

There are available gains of 0.70% of payroll in the Teachers' and State Employees' Retirement System to fund this without increasing the contribution rate.

ESTIMATED IMPACT: Local Governmental Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 0.04% of the payroll of all members of the Local Governmental Employees' Retirement System. This estimate is based on the assumption that there are 3,000 members eligible to purchase 2 years of military service.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Local Funds	\$2.2M	\$2.3M	\$2.5M	\$2.6M	\$2.7M

General Assembly Actuary: Hartman & Associates does not have any data on which to base the estimated cost. However, given the high potential number of military veterans, the cost is estimated to be significant.

There are available gains of 0.39% of payroll in the Local Governmental Employees' Retirement System to fund this without increasing the contribution rates of each employer.

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, 2004 actuarial valuation of the fund. The data included 311,612 active members with an annual payroll of \$10.4 billion and 128,577 retired members in receipt of annual pensions totaling \$2.3 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.

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, 2004 actuarial valuation of the fund. The data included 121,262 active members with an annual payroll of \$4.1 billion and 36,728 retired members in receipt of annual pensions totaling \$525.2 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 Consultants
General Assembly Actuary - Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: None

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.

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APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

DATE: May 25, 2006



Signed Copy Located in the NCGA Principal Clerk's Offices