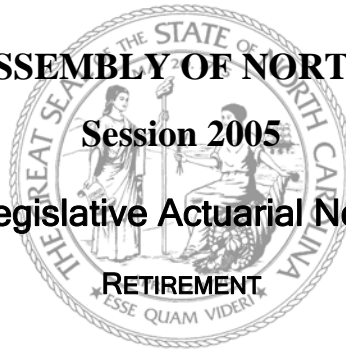


# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

## Legislative Actuarial Note



**BILL NUMBER:** House Bill 2704 (First Edition)

**SHORT TITLE:** Reciprocity/Optional Retirement System.

**SPONSOR(S):** Representative Insko

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**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Fund

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System

**EFFECTIVE DATE:** July 1, 2006

**BILL SUMMARY:** Some positions in the university system give the employee the choice of participating in either the Teachers' & State Employees' Retirement System or the Optional Retirement Plan. The Optional Retirement Plan is a defined contribution plan whereby the employee contributes 6% of salary and the university contributes 6.84% of salary. In some instances, when an employee changes jobs, the employee will no longer be eligible to participate in the Optional Retirement Plan, so over a career where the employee might change jobs several times, they could be members of both systems. This bill will allow the Teachers' & State Employees' Retirement System to use any service the employee has accumulated in the Optional Retirement Plan to determine their eligibility for benefits.

For example, an employee comes to work with university and works ten years and was member of the State System. Then, the employee changes jobs and now can elect to participate in the Optional Retirement Plan and does so for next ten years. The employee terminates employment with a total of twenty years of service at age 55. Under present law, the employee could not receive a benefit from the State System until age 60 (reduced) or age 65 (unreduced). This bill would cause the System to consider the total of 20 years service and age 55 to determine the qualification of a reduced early retirement. However, the retirement benefit would be calculated only on the ten years of service in the State System.

**ESTIMATED IMPACT ON STATE:** Retirement System Actuary: Buck Consultants estimates the cost to be 0.0055% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$465,905	\$485,566	\$506,057	\$527,413	\$549,670
Highway Fund	\$23,007	\$23,977	\$24,989	\$26,044	\$27,143
Receipt Funds	<u>\$148,429</u>	<u>\$154,692</u>	<u>\$161,220</u>	<u>\$168,024</u>	<u>\$175,114</u>
<b>TOTAL COST</b>	<b>\$637,340</b>	<b>\$664,236</b>	<b>\$692,266</b>	<b>\$721,480</b>	<b>\$751,927</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.01% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$847,100	882,484	\$920,104	\$958,932	\$999,399
Highway Fund	\$41,830	\$43,595	\$45,435	\$47,352	\$49,351
Receipt Funds	<u>\$269,870</u>	<u>\$281,259</u>	<u>\$293,128</u>	<u>\$305,498</u>	<u>\$318,390</u>
<b>TOTAL COST</b>	<b>\$1,158,800</b>	<b>\$1,207,701</b>	<b>\$1,258,666</b>	<b>\$1,311,782</b>	<b>\$1,367,139</b>

**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) annual salary increase rates from 5.45% to 12.08% which includes an inflation rate of 3.75% (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:** Buck Consultants  
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.

**PREPARED BY:** Stanley Moore

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division



**DATE:** June 9, 2006

**Signed Copy Located in the NCGA Principal Clerk's Offices**