

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

## Legislative Actuarial Note

### RETIREMENT

**BILL NUMBER:** House Bill 237 (First Edition)

**SHORT TITLE:** Retirees Returning to Work.

**SPONSOR(S):** Representatives Insko, Yongue, Glazier, and Rapp

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

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

**EFFECTIVE DATE:** July 1, 2007

**BILL SUMMARY:** Creates a "Normal retirement age" definition which means 60 years or older with 25 or more years of creditable service or 65 years or older with 5 or more years of service. The definition of "Retirement" is changed to mean (1) anyone who meets the normal retirement age can retire and continue to work with no break in service and (2) anyone who does not meet the normal retirement age can return to work provided there is a complete separation from active service with no express or implied agreement to return to service and the member may not engage in any type of state employment during the 25 working days immediately following the member's effective date of retirement plus the longer of the number of weeks during each of the previous two years in which there were no paid days of employment. Previously, all retirees were subject to a no-employment period of six months and were required to have no intent or agreement with the employer to return to service after the six-month period.

GS 135-3(8)c. permits a retiree on an early or service retirement allowance to return to work for a employer on a part-time, interim, temporary, or contractual basis, but the retirement allowance is suspended each year if the retiree earns the greater of \$26,960 or 50% of the retiree's salary during the 12 months before retirement. The suspension of the retirement allowance is known as the "salary cap." This act amends GS 135-3(8)c. to provide that the retiree's allowance is also suspended if the retiree's earnings in any month exceed 60% of the retirees average monthly compensation during the 12 months before retirement (excluding terminal payments). There is an exception to this new cap for retirees whose employment is for a fixed period of no more than six months and is preceded by at least six months of continuous separation from active service.

The act further amends the part of GS 135-3(8)c. that provides an exemption from the salary cap for public school teachers to change the no-employment period from six months to the period described in GS 135-1(20), summarized above. The public school teacher exemption was set to sunset June 30, 2007; this act intends to delete the sunset, effective June 30, 2007.

Makes conforming changes to GS 115C-325(a)(5a) (definition of retired teacher) to conform to the definition of retirement and the no-employment period in GS 135-1(20). Participants in The University of North Carolina phased retirement program had been exempted from the no-employment restrictions of GS 135-1(3), with a sunset of June 30, 2010. This act amends Section 22.21 of SL 2006-66 with respect to the UNC phased retirement program to (1) make the exemption for the phased retirement program permanent; and (2) require UNC to limit the phased retirement program to retirees who have reached a normal retirement age (to be designated by UNC as either 59½ or 60 years). The act also authorizes the community colleges system to establish a similar phased retirement program for faculty that has reached normal retirement age.

**ESTIMATED IMPACT: Retirement System Actuary:** Buck Consultants estimates the cost to be 0.20% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General Fund	\$18.5M	\$19.3M	\$20.0M	\$20.1M	\$21.7M
Highway Fund	\$ .9M	\$ .9M	\$1.0M	\$1.0M	\$1.0M
Receipt Funds	<u>\$5.8M</u>	<u>\$6.0M</u>	<u>\$6.3M</u>	<u>\$6.5M</u>	<u>\$6.8M</u>
<b>TOTAL COST</b>	<b>\$25.2M</b>	<b>\$26.2M</b>	<b>\$27.3M</b>	<b>\$28.4M</b>	<b>\$29.5M</b>

**General Assembly Actuary:** Hartman & Associates estimates the cost to be 0.26% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General Fund	\$24.1M	\$25.0M	\$26.1M	\$27.1M	\$28.2M
Highway Fund	\$1.1M	\$1.2M	\$1.2M	\$1.3M	\$1.3M
Receipt Funds	<u>\$7.5M</u>	<u>\$7.8M</u>	<u>\$8.2M</u>	<u>\$8.5M</u>	<u>\$8.8M</u>
<b>TOTAL COST</b>	<b>\$32.7M</b>	<b>\$34.0M</b>	<b>\$35.5M</b>	<b>\$36.9M</b>	<b>\$38.4M</b>

**There are available gains of 0.34% of payroll in the Teachers' and State Employees' Retirement System to fund this without increasing the State's contribution rate.**

**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, 2005 actuarial valuation of the fund. The data included 321,513 active members with an annual payroll of \$11 billion, 134,719 retired members in receipt of annual pensions totaling \$2.5 billion and actuarial value of assets equal to \$49.7 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:** 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.

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

**DATE:** March 23, 2007



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