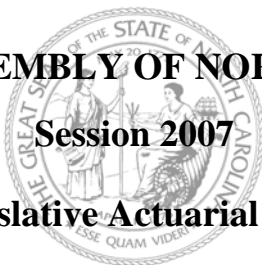


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1947 (First Edition)
SHORT TITLE: Career Fire and Rescue 25-Year Retirement.
SPONSOR(S): Representative J. Harrell

FUNDS AFFECTED: Local Funds

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: Presently firemen and rescue workers are eligible to retire at any age with 30 years of service, age 60 with 25 years of service or age 65 with 5 years of service. This bill changes the eligibility for retirement for firemen and rescue workers to any age with 25 years or age 55 with 5 years of service. The bill also increases the accrual rate for each year of service from 1.85% to 2.20% for firefighters and rescue squad workers.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Retirement System Actuary: Buck Consultants estimates the normal cost to increase by 3.70% of payroll from 4.80% to 8.50% for all firefighters and rescue squad workers in the Local Governmental Employees' Retirement System. They estimate the accrued liability will increase by about \$218,000,000 and the accrued liability contribution will be 4.02% based on a 24-year liquidation period. The annual cost, based on an estimated payroll of \$333.3 million is as follows:

Table with 6 columns: Category, 2007-08, 2008-09, 2009-10, 2010-11, 2011-12. Rows include Normal Cost, Accrued Liability, and Retirement Cost.

General Assembly Actuary: Hartman & Associates estimates the normal cost to increase by 4.16% of payroll from 4.80% to 8.96% for all firefighters and rescue squad workers in the Local Governmental Employees' Retirement System. They estimate the accrued liability will increase by about \$231,200,000 and the accrued liability contribution will be 4.02% based on a 24-year liquidation period. Hartman & Associates estimated a salary base of \$355 million but the following amounts are based on the same salary base as Buck used.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Normal Cost	\$13.9M	\$14.5M	\$15.2M	\$16.0M	\$16.8M
Accrued Liability	\$13.4M	\$14.0M	\$14.7M	\$15.5M	\$16.2M
Retirement Cost	\$27.3M	\$28.6M	\$30.0M	\$31.4M	\$33.0M

ASSUMPTIONS AND METHODOLOGY: 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, 2005 actuarial valuation of the fund. The data included 123,015 active members with an annual payroll of \$4.2 billion, 38,448 retired members in receipt of annual pensions totaling \$575 million and actuarial value of assets equal to \$14.4 billion. 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: 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: May 14, 2007

Signed Copy Located in the NCGA Principal Clerk's Offices