

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** House Bill 940

**SHORT TITLE:** Transfer of service to the Consolidated Judicial Retirement System

**SPONSOR(S):** Representative Hardaway

**SYSTEM OR PROGRAM AFFECTED:** Consolidated Judicial Retirement System

**BILL SUMMARY:** Allows any member of the Consolidated Judicial Retirement System with five or more years of service to transfer any creditable service in the Teachers' and State Employees' Retirement System or Local Governmental Employees' Retirement System to the Consolidated Judicial Retirement System to be used as membership service. The benefit at retirement would be calculated based on the member's final compensation, times the appropriate accrual rate, times the number of years of service as a member of the Judicial System, plus a benefit calculated on an average final compensation, times the accrual rate in either the State Retirement System or the Local Retirement System, times the years of service as a teacher, State employee or local employee.

By allowing the transfer of the service, a member of the Judicial System will be eligible to retire at an earlier age, with a higher retirement benefit and will also be eligible for a spousal retirement benefit based on the service as a teacher, state employee or local employee.

**EFFECTIVE DATE:** July 1, 1999

**ESTIMATED IMPACT ON STATE:** This bill will affect 162 members of the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System who have also become members of the Judicial Retirement System. It will also affect other employees of the State or Local Systems who become members of the Judicial System. In order to fund the liability that will increase in the Judicial System, as a result of the transfer of service from the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System, the actuaries estimate the cost to be 3.76% of payroll (Buck) and 4.60% of payroll (Hartman & Associates). The cost estimates below are based on the salary base as of July 1, 1999 projected at the average annual increase in compensation base over the last five years of 6.34%. There are sufficient actuarial gains within the Consolidated Judicial Retirement System to pay the cost of this change.

**System Actuary:** Buck Consultants estimates the cost to be 3.76% of total payroll to the Judicial System:

	<u>FY</u> 1999-00	<u>FY</u> 2000-01	<u>FY</u> 2001-02	<u>FY</u> 2002-03	<u>FY</u> 2003-04
<b>General Fund</b>	\$1.6M	\$1.7M	\$1.8M	\$2.0M	\$2.1M

**General Assembly Actuary:** Hartman & Associates estimates the cost to be 4.6% of total payroll to the Judicial System:

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	1999-00	2000-01	2001-02	2002-03	2003-04
<b>General Fund</b>	\$2.0M	\$2.1M	\$2.2M	\$2.4M	\$2.5M

**ASSUMPTIONS AND METHODOLOGY: 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, 1997 actuarial valuation of the fund. The data included 456 active members with an annual payroll of \$39.7 million and 327 retired members in receipt of annual pensions totaling \$10.8 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 an unfunded liquidation period of ten 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 - Buck Consultant, Inc.  
General Assembly Actuary – Hartman & Associates

**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:** Tom Covington

**DATE:** Tuesday, April 13, 1999



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