

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** House Bill 1673

**SHORT TITLE:** Increase Retirement Benefits

**SPONSOR(S):** Representative Michaux

**SYSTEM OR PROGRAM AFFECTED:** Teacher's & State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System

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

**BILL SUMMARY: Teachers' and State Employees' Retirement System-** Increases the accrual rate for active members from 1.80% to 1.81% for each year of service, grants an adjusting increase of 0.6% to retirees as a result of the accrual rate change and provides a post-retirement increase of two and one-tenths percent (2.1%) in the benefits of retirees. **Consolidated Judicial Retirement System** Provides a post-retirement increase of two and six-tenths percent (2.6%) in the benefits of retirees. **Legislative Retirement System** Provides a post-retirement increase of two and seven-tenths percent (2.7%) in the benefits of retirees. **Local Governmental Employees' Retirement System Increases** the accrual rate for active members from 1.77% to 1.78% for each year of service, grants an adjusting increase of 0.6% to retirees as a result of the accrual rate change and provides a post-retirement increase of three and eight-tenths percent (3.8%) in the benefits of retirees.

**EFFECTIVE DATE:** July 1, 2000

**ESTIMATED IMPACT ON STATE:**

**Teachers' and State Employee's Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost of the formula increase with adjusting increase to retirees and the 2.1% COLA to be 0.95% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$ 64.5m	\$ 68.4m	\$ 72.5m	\$ 76.8m	\$ 81.5m
Highway Fund	\$ 5.0m	\$ 5.3m	\$ 5.6m	\$ 6.0m	\$ 6.3m
Receipt Funds	<u>\$ 17.4m</u>	<u>\$ 18.4m</u>	<u>\$ 19.5m</u>	<u>\$ 20.7m</u>	<u>\$ 22.0m</u>
Total	\$ 86.9m	\$ 92.1m	\$ 97.6m	\$103.5m	\$109.8m

General Assembly Actuary: Hartman & Associates estimates the cost of the formula increase with adjusting increase to retirees and the 2.1% COLA to be 0.91% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$ 61.8m	\$ 65.5m	\$ 69.4m	\$ 73.6m	\$ 78.0m

Highway Fund	\$ 4.8m	\$ 5.1m	\$ 5.4m	\$ 5.7m	\$ 6.1m
Receipt Funds	<u>\$ 16.6m</u>	<u>\$ 17.7m</u>	<u>\$ 18.7m</u>	<u>\$ 19.8m</u>	<u>\$ 21.0m</u>
Total	\$ 83.2m	\$ 88.3m	\$ 93.5m	\$ 99.1m	\$105.1m

There are actuarial gains within the System to do this increase without additional appropriations.

### **Consolidated Judicial Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost of the 2.6% COLA to be .97% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$455,900	\$486,081	\$518,259	\$552,568	\$589,148

General Assembly Actuary: Hartman & Associates estimates the cost of the 2.6% COLA to be .93% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$477,100	\$466,036	\$496,888	\$529,782	\$564,853

There are actuarial gains within the System to do this increase without additional appropriations.

### **Legislative Retirement System**

Retirement System Actuary: Charles Dunn estimates the cost of the 2.7% COLA to be 1.24% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$44,640	\$44,640	\$44,640	\$44,640	\$44,640

General Assembly Actuary: Hartman & Associates estimates the cost of the 2.7% COLA to be 1.32% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
General Fund	\$47,520	\$47,520	\$47,520	\$47,520	\$47,520

### **Local Governmental Employee's Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost of the formula increase and the 3.8% COLA to be .55% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
Local Funds	\$18.1m	\$19.3m	\$20.5m	\$21.8m	\$23.2m

General Assembly Actuary: Hartman & Associates estimates the cost of the formula increase and the 3.8% COLA to be .51% of payroll.

	2000-01	2001-02	2002-03	2003-04	2004-05
Local Funds	\$16.8m	\$17.9m	\$19.0m	\$20.2m	\$21.6m

There are actuarial gains within the System to do this increase without additional appropriations.

## **ASSUMPTIONS AND METHODOLOGY:**

### **Teacher's & 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, 1998 actuarial valuation of the fund. The data included 278,558 active members with an annual payroll of \$7.995 billion and 97,820 retired members in receipt of annual pensions totaling \$1.375 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.

### **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, 1998 actuarial valuation of the fund. The data included 478 active members with an annual payroll of \$40.9 million and 343 retired members in receipt of annual pensions totaling \$12.1 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 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.

### **Legislative 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, 1998 actuarial valuation of the fund. The data included 167 active members with an annual payroll of \$3.6 million and 181 retired members in receipt of annual pensions totaling \$965,102. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality Tables for deaths in service and after retirement and (c) 100% vesting after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with service prorate. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. 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, 1998 actuarial valuation of the fund. The data included 108,904 active members with an annual payroll of \$2.930 billion and 26,975 retired members in receipt of annual pensions totaling \$291.4 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 Consultant, Inc.  
General Assembly Actuary - Hartman & Associates  
Legislative System Actuary Charles Dunn

**FISCAL RESEARCH DIVISION:** 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. The above cost estimates are based on the salary base as of July 1, 2000 projected at the average annual increase in compensation base for each system over the last five years. The Legislative System salary base is not projected to increase since salaries have been the same for several years.

**(919) 733-4910**

**PREPARED BY:** Stanley Moore

**APPROVED BY:** James D. Johnson

**DATE:** June 1, 2000



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