

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1022

SHORT TITLE: 28-Year Retirement/Retention Incentive

SPONSOR(S): Representative Goodwin

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

FUNDS AFFECTED: General Fund, Highway Fund, and Receipts Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 28 years of service as a certified correctional officer regardless of age and allows for a Teacher and State Employee Retention Incentive Program. This program allows a member of the retirement system to retire but continue to work for a period of time not to exceed five years. During this period of time, the retirement benefit is paid into special account along with any cost-of-living increases granted, until the employee terminates employment. Then the retiree receives a lump sum payment of balance of special account and begins to receive retirement benefits on monthly basis. Also, during this period, the retirement system continues to receive employer contributions, but no employee contributions, and the employee earns no additional retirement service.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: Teacher and State Employee Retention Incentive Program
Retirement System Actuary: Buck Consultants estimates the cost for the Retention Incentive Program will increase by .37% of the payroll of all members of the Teachers' and State Employee's Retirement System.

| (in millions) | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---------------|---------------|---------------|---------------|---------------|---------------|
| General Fund | \$26.5 | \$28.1 | \$29.8 | \$31.6 | \$33.4 |
| Highway Fund | \$ 1.4 | \$ 1.4 | \$ 1.5 | \$ 1.6 | \$ 1.7 |
| Receipt Funds | <u>\$ 8.0</u> | <u>\$ 8.4</u> | <u>\$ 8.9</u> | <u>\$ 9.3</u> | <u>\$ 9.8</u> |
| Total Cost | \$35.9 | \$38.0 | \$40.2 | \$42.5 | \$44.9 |

General Assembly Actuary: Hartman & Associates estimates a cost ranging from .18% to a saving of .21% depending on the number of participants in the Retention Incentive Program. This is based on the payroll of all members of the Teachers' and State Employee's Retirement System.

| (in millions) | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---------------|----------------------|----------------------|-----------------------|-----------------------|----------------------|
| General Fund | \$12.9-(\$15.1) | \$13.7-(\$15.9) | \$14.5-(\$16.9) | \$15.4-(\$17.9) | \$16.3-(\$18.9) |
| Highway Fund | \$ 0.7 – (\$0.8) | \$ 0.7 – (\$0.8) | \$ 0.7 – (\$0.9) | \$ 0.7 – (\$ 0.9) | \$ 0.7 – (\$1.0) |
| Receipt Funds | <u>\$3.9-(\$4.5)</u> | <u>\$4.1-(\$4.8)</u> | <u>\$4.3 -(\$5.0)</u> | <u>\$4.5 -(\$5.3)</u> | <u>\$4.8-(\$5.6)</u> |
| Total | \$17.4-(\$20.4) | \$18.5-(\$21.6) | \$19.5-(\$22.8) | \$20.7-(\$24.1) | \$21.9-(\$25.5) |

Teachers' and State Employee's Retirement System: Estimated cost to drop retirement requirement from 30 years to 28 years.

Retirement System Actuary: Buck Consultants estimates the cost to be 1.23% of the payroll of all members of the Teachers' and State Employee's Retirement System.

| (in millions) | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|-------------------|----------------|----------------|----------------|----------------|----------------|
| General Fund | \$88.2 | \$93.5 | \$99.0 | \$104.9 | \$111.2 |
| Highway Fund | \$ 4.5 | \$ 4.8 | \$ 5.1 | \$ 5.4 | \$ 5.7 |
| Receipt Funds | <u>\$ 26.6</u> | <u>\$28.0</u> | <u>\$29.5</u> | <u>\$ 31.0</u> | <u>\$ 32.7</u> |
| TOTAL COST | \$119.3 | \$126.2 | \$133.6 | \$141.3 | \$149.5 |

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.3% of the payroll of all members of the Teachers' and State Employee's Retirement System.

| (in millions) | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|-------------------|----------------|----------------|----------------|----------------|-----------------|
| General Fund | \$ 93.2 | \$ 98.8 | \$ 104.7 | \$110.9 | \$117.5 |
| Highway Fund | \$ 4.8 | \$ 5.0 | \$ 5.3 | \$ 5.7 | \$ 6.0 |
| Receipt Funds | <u>\$ 28.1</u> | <u>\$ 29.6</u> | <u>\$ 31.2</u> | <u>\$ 32.8</u> | <u>\$ 734.6</u> |
| TOTAL COST | \$126.1 | \$133.4 | \$144.2 | \$149.4 | \$158.1 |

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, 1999 actuarial valuation of the fund. The data included 285,784 active members with an annual payroll of \$8.4 billion and 102,939 retired members in receipt of annual pensions totaling \$1.510 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: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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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DATE: May 29, 2001



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