NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT

BILL NUMBER: House Bill 1678

SHORT TITLE: Retirement System Conforming Changes

SPONSOR: Representative Barefoot

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

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

BILL SUMMARY: Makes changes to the four major retirement systems to conform to the Economic Growth and Tax Relief Reconciliation Act of 2001. The bill allows for the use of rollover contributions from other plans to make service purchases in the four systems. It also increases the level of compensation for plan years after December 31, 2001, to $200,000.

EFFECTIVE DATE: When it becomes law except that sections 1, 3, 5 and 7 become effective January 1, 2003. Parts become effective either January 1, 2003, or the date which ruling by IRS is received.

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost would be negligible and would have no material impact.

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, 2000, actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of $9 billion and 1107,743 retired members in receipt of annual pensions totaling $1.68 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.

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, 2000, actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of $3.34 billion and 30,061 retired members in receipt of annual pensions totaling $356.8 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 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.

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, 2000, actuarial valuation of the fund. The data included 470 active members with an annual payroll of $43.5 million and 368 retired members in receipt of annual pensions totaling $14.5 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, 2000, actuarial valuation of the fund. The data included 172 active members with an annual payroll of $3.7 million and 189 retired members in receipt of annual pensions totaling $1,055,125. 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
                                     General Assembly Actuary - Hartman & Associates, LLC

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