

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

BILL NUMBER: House Bill 354 Conference Report

SHORT TITLE: Amend Disability Laws

SYSTEM OR PROGRAM AFFECTED: Disability Income Plan of North Carolina

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Effective July 1, 2003, repeals changes made in SL 2003-284 (2003 Appropriations Act) to: (1) the definition of “Disability” or “Disabled” in G.S. 135-101(6); (2) G.S. repeals change made to 135-105(a) that required an employee, to be considered disabled, to be unable to perform any available jobs with the State, and (3) repeals the change made to G.S. 135-106(a) that requires an employees, in order to be considered disabled, to be unable to perform any occupation for which the member is qualified for by training or education. The repeal of these effective July 1, 2003, will put the law back as it was before the Appropriation Bill was enacted in 2003.

The bill again changes the definition of “long term disability” effective August 1, 2005, from the participant being mentally or physically incapacitated for further performance of duty to unable to perform any occupation or employment commensurate to the employee’s education, training, or experience that is available in the same commuting area for state employees or with the same local school administrative unit for school personnel, without an adverse impact on the employee’s career status, and in which the employee can be expected to earn not less than 65% of the employee’s pre-disability earnings.

The bill also rewrites the membership of the Study Commission, which is to make a final report by December 31, 2004.

EFFECTIVE DATE: The repeal of the changes made in the Appropriations Bill of 2003 are effective July 1, 2003, and the new rewrite of the definition of long-term disability is effective August 1, 2005, and the changes to the membership of the Commission is effective when it becomes law.

ESTIMATED IMPACT ON STATE: Both actuarial agree that the changes to the definitions of “short-term disability” and “long-term disability” could result in a loss of savings that would occur. As a result of changes to the definition of “long-term disability” effective August 1, 2005, after several years, there would be some cost savings as the number of members who become disabled under the new, more restrictive definition increase relative to the number of existing members, who become disabled under the less restrictive definition.

ASSUMPTIONS AND METHODOLOGY: Disability Income Plan of North Carolina

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, 2002, actuarial valuation of the fund. The data included 306,247 active members with an annual payroll of \$10.5 billion, actuarial value of assets \$276 million and 4,697 disabled members in receipt of annual pensions totaling \$43.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) across-the-board salary increases of 5.75%, (c) rates of disability and termination based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transactions Volume XXXIX, 1987. The assumed rate of approval for Social Security disability benefits prior to the completion of four years of disability is 75% and the assumed future increases in Social Security benefits are 3.75% per year. Claims cost for the Long-Term Disability (LTD) benefits are calculated using the one-year term cost method, i. e., the cost of coverage is the present value of all LTD benefits payment that will be made on expected claims incurred during the year following the valuation date. Short-Term Disability benefits are calculated on a pay-as-you-go basis. 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 - Mellon
General Assembly Actuary - Hartman & Associates, LLC

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

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DATE: June 24, 2004

Signed Copy Located in the NCGA Principal Clerk's Offices