

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

BILL NUMBER: Conference Committee for **House Bill 397**

- Sets the contribution rates to the State retirement systems for the 2003-05 biennium;
- Provides a cost-of-living increase of 1.28% for retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System
- Allows for the transfer of service from the Legislative Retirement System to the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System after a member has completed five years of service as either a teacher of State employee or as a person eligible to be in Judicial System.
- Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$156 to \$158.
- Increases the death benefit of \$25,000 to \$50,000 for law enforcement officers, firemen, rescue squad workers, senior members of the Civil Air Patrol, State forestry workers and Department of Insurance instructors who are killed or dies as a result of bodily injuries sustained or of extreme exercise of extreme activity experienced in the line of duty.
- Extends coverage to those individuals who die as the direct and proximate result of a myocardial infarction suffered while on duty or within 24 hours after participating in a training exercise or responding to any emergency situation.
- Establishes a study commission to study the Disability Income Plan and the death benefits for teachers, state employees and law enforcement officers. Changes the definition of "Disability" for the short-term plan and the long-term plan to only apply to those employees not vested on July 1, 2003.

SPECIAL PROVISION: Provides cost-of-living increases of 1.28% for retirees of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Legislative Retirement System.

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

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Provides a post-retirement increase of 1.28% in the benefits of retirees of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System and Legislative Retirement System.

EFFECTIVE DATE: July 1, 2003

ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 0.38% of the payroll of all members of the Teachers' and State Employees' Retirement System. There are actuarial gains in the System of .16%

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$28.6M	\$30.5M	\$32.6M	\$34.8M	\$37.1M
Highway Fund	\$ 1.4M	\$ 1.5M	\$ 1.6M	\$ 1.7M	\$ 1.8M
Receipt Funds	<u>\$ 9.2M</u>	<u>\$ 9.8M</u>	<u>\$10.5M</u>	<u>\$11.2M</u>	<u>\$11.9M</u>
TOTAL COST	\$ 39.2M	\$ 41.8M	\$ 44.7M	\$ 47.7M	\$ 50.9M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.33% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$24.8M	\$26.5M	\$28.3M	\$30.2M	\$32.2M
Highway Fund	\$ 1.2M	\$ 1.3M	\$ 1.4M	\$ 1.5M	\$ 1.6M
Receipt Funds	<u>\$ 8.0M</u>	<u>\$ 8.5M</u>	<u>\$ 9.1M</u>	<u>\$ 9.7M</u>	<u>\$10.4M</u>
TOTAL COST	\$34.0M	\$36.3M	\$38.8M	\$41.4M	\$44.2M

Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be .58% of payroll.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.4M

General Assembly Actuary: Hartman & Associates estimates the cost to be .54% of payroll.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.4M

There are actuarial gains in the System to pay for this increase.

Legislative Retirement System

Retirement System Actuary: Charles Dunn and Hartman & Associates estimates the cost to be .50% of payroll.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$18,000	\$18,000	\$18,000	\$18,000	\$18,000

SPECIAL PROVISION: Allows for the transfer of service from the Legislative Retirement System to the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System after a member has completed five years of service as either a teacher of State employee or as a person eligible to be in Judicial System.

EFFECTIVE DATE: January 1, 2004

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost is about \$250,000 to the Teachers' and State Employees' Retirement System and about \$40,000 to the Consolidated Judicial Retirement System to allow for these transfers.

SPECIAL PROVISION: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$156 to \$158

EFFECTIVE DATE: July 1, 2003

ESTIMATED IMPACT ON STATE: System Actuary: Buck Consultants

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	2003-04	2004-05	2005-06	2006-07	2007-08
Benefit Increase	\$571,906	\$571,906	\$571,906	\$571,906	\$571,906

General Assembly Actuary: Hartman & Associates

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	2003-04	2004-05	2005-06	2006-07	2007-08
Benefit Increase	\$572,270	\$572,270	\$572,270	\$572,270	\$572,270

SPECIAL PROVISION: Increases the death benefit of \$25,000 to \$50,000 for law enforcement officers, firemen, rescue squad workers, senior members of the Civil Air Patrol, State forestry workers and Department of Insurance instructors who are killed or dies as a result of bodily injuries sustained or of extreme exercise of extreme activity experienced in the line of duty. Also this will extend coverage to those individuals who die as the direct and proximate result of a myocardial infarction suffered while on duty or within 24 hours after participating in a training exercise or responding to any emergency situation.

SYSTEM OR PROGRAM AFFECTED: Death benefit Plan for law enforcement officers, firemen, rescue squad workers, senior members of the Civil Air Patrol, State forestry workers and Department of Insurance instructors who are killed or dies as a result of bodily injuries sustained or of extreme exercise of extreme activity experienced in the line of duty.

EFFECTIVE DATE: July 1, 2003

ESTIMATED IMPACT ON STATE : Estimated cost to increase the death benefit to \$50,000.

Buck Consultants	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000

General Assembly Actuary: Hartman & Associates

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	2003-04	2004-05	2005-06	2006-07	2007-08
	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000

ESTIMATED IMPACT ON STATE: Estimated cost to include heart attacks.

System Actuary: Buck Consultants is unable to estimate cost since there is no data available.

General Assembly Actuary: Hartman & Associates estimates the cost to be \$25,000 to \$50,000 annually.

SPECIAL PROVISION: Establishes a study commission to study the Disability Income Plan and the death benefits for teachers, state employees and law enforcement officers. Changes the definition of "Disability" for the short-term plan and the long-term plan to only apply to those employees not vested as of July 1, 2003.

SYSTEM OR PROGRAM AFFECTED: Disability Income Plan for teacher's & state employees

EFFECTIVE DATE:

July 1, 2003

ESTIMATED IMPACT ON STATE: .Both the Plan's actuary, Buck Consultants, and the General Assembly's actuary: Hartman & Associates estimates there will be a cost savings as a result of changing the definition of "Disability".

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, 2001 actuarial valuation of the fund. The data included 297,252 active members with an annual payroll of \$9.5 billion and 112,482 retired members in receipt of annual pensions totaling \$1.83 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, 2001 actuarial valuation of the fund. The data included 487 active members with an annual payroll of \$47.8 million and 382 retired members in receipt of annual pensions totaling \$16.1 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, 2001 actuarial valuation of the fund. The data included 169 active members with an annual payroll of \$3.6 million and 204 retired members in receipt of annual pensions totaling \$1,188,931. 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.

Death Benefit for law enforcement officers, firemen, rescue squad workers, senior members of the Civil Air Patrol, State forestry workers and Department of Insurance instructors: The cost estimates are based on the experience of the plan over the last 27 years and the number of eligible participates of the plan, while is as follows:

2003-04 Estimated Coverage

Law Officers (State & Local Gov't.)	24,758
Firemen (Paid & Volunteer)	44,083
Rescue Squad Workers	21,294
Correctional Custody Officers	12,322
Forest Firefighters	692
CAP Senior Members	984
Dept. of Insurance Employees	<u>25</u>
TOTAL	91,848

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

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson, Director, Fiscal Research Division

DATE: June 28, 2003



Signed Copy Located in the NCGA Principal Clerk's Offices