

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

BILL NUMBER: Senate Committee Substitute 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 1.45% for retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement 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 for teachers and State employees from one years salary with a minimum of \$25,000 and maximum of \$50,000 to \$50,000 for everyone. Also transfers the death benefit plan, the separate benefit fund for law enforcement officers and the Disability Income Plan from the Retirement Systems Division of the Department of State Treasurer to the Executive Administrator and Board of Trustees of the Teachers' and State Employees' Comprehensive Major Medical Plan.

SPECIAL PROVISION: Provides cost-of-living increases of 1.45% for retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial 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

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 0.42% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$31.6M	\$33.7M	\$36.0M	\$38.4M	\$41.1M
Highway Fund	\$ 1.5M	\$ 1.7M	\$ 1.8M	\$ 1.9M	\$ 2.0M
Receipt Funds	<u>\$ 10.2M</u>	<u>\$ 10.9M</u>	<u>\$ 11.6M</u>	<u>\$12.4M</u>	<u>\$13.2M</u>
TOTAL COST	\$ 43.3M	\$ 46.2M	\$ 49.4M	\$52.7M	\$56.3M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.38% 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	\$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

Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be .65% of payroll.

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

General Assembly Actuary: Hartman & Associates estimates the cost to be .61% of payroll.

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

Legislative Retirement System

Retirement System Actuary: Charles Dunn and Hartman & Associates estimates the cost to be .57% of payroll.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$20.520	\$20.520	\$20.520	\$20.520	\$20.520

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

General Assembly Actuary: Hartman & Associates

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

SPECIAL PROVISION: Increases the death benefit for teachers and State employees from one year's salary with a minimum of \$25,000 and maximum of \$50,000 to \$50,000 for everyone. Also transfers the death benefit plan, the separate benefit fund for law enforcement officers and the Disability Income Plan from the Retirement Systems Division of the Department of State Treasurer to the Executive Administrator and Board of Trustees of the Teachers' and State Employees' Comprehensive Major Medical Plan.

EFFECTIVE DATE: January 1, 2004

ESTIMATED IMPACT ON STATE: Both the System's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, estimate the cost to increase the death benefit will increase from .16% to .23% effective January 1, 2004.

	<u>FY</u> 2003-04	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07	<u>FY</u> 2007-08
General Fund	\$2.6M	\$5.6M	\$6.0M	\$6.4M	\$6.8M
Highway Fund	\$0.1M	\$0.3M	\$0.3M	\$0.3M	\$0.3M
Receipt Funds	<u>\$0.8M</u>	<u>\$1.8M</u>	<u>\$1.9M</u>	<u>\$2.1M</u>	<u>\$2.2M</u>
TOTAL COST	\$3.6M	\$7.7M	\$8.2M	\$8.8M	\$9.4M

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.

Firemen's and Rescue Squad Worker's Pension Fund

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2002 actuarial valuation of the fund. The data included 31,221 active members and 8,602 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) the 1974 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age 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
Charles W. Dunn, Consulting Actuary

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