

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

BILL NUMBER: House Bill 812

SHORT TITLE: Amend Retirees' Earnings Restrictions

SPONSOR(S): Representative Rapp

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

FUNDS AFFECTED: General Fund, Highway Fund, Receipt Fund and local funds

BILL SUMMARY: Under the present law, a retiree can return to service as a part-time, temporary or contractual employee and is allowed to earn in any calendar year or the 12 months immediately following retirement, 50% of the salary earned during the 12 months of service prior to retirement or \$24,180, whichever is greater.

This bill will remove the earnings test for the 12 months immediately following retirement.

EFFECTIVE DATE: July 1, 2003

ESTIMATED IMPACT ON STATE: The System's actuary, Buck Consultants estimates the cost to be 0.03 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	\$ 2.3M	\$ 2.4M	\$ 2.6M	\$ 2.7M	\$ 2.9M
Highway Fund	\$ 0.1M	\$ 0.1M	\$ 0.1M	\$ 0.1M	\$ 0.1M
Receipt Funds	<u>\$ 0.7M</u>	<u>\$ 0.8M</u>	<u>\$ 0.8M</u>	<u>\$ 0.9M</u>	<u>\$ 0.9M</u>
TOTAL COST	\$ 3.1M	\$ 3.3M	\$ 3.5M	\$ 3.8M	\$ 4.0M

The General Assembly's actuary, Hartman & Associates, estimates the cost to be 0.04% 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	\$ 3.0M	\$ 3.2M	\$ 3.4M	\$ 3.7M	\$ 3.9M
Highway Fund	\$ 0.1M	\$ 0.2M	\$ 0.2M	\$ 0.2M	\$ 0.2M
Receipt Funds	<u>\$ 1.0M</u>	<u>\$ 1.0M</u>	<u>\$ 1.1M</u>	<u>\$ 1.2M</u>	<u>\$ 1.3M</u>
TOTAL COST	\$ 4.1M	\$ 4.4M	\$ 4.7M	\$ 5.0M	\$ 5.4M

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employee's Retirement System

Without any data, Buck Consultants and Hartman & Associates are unable to estimate the cost to the Local Governmental Employees' Retirement System.

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, 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.

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, 2001, actuarial valuation of the fund. The data included 118,580 active members with an annual payroll of \$3.6 billion and 31,352 retired members in receipt of annual pensions totaling \$392.7 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
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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APPROVED BY: James D. Johnson, Director Fiscal Research Division

DATE: April 11, 2003



Signed Copy Located in the NCGA Principal Clerk's Offices