

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 701 (First Edition)

SHORT TITLE: Retired School Professionals Return to Work.

SPONSOR(S): Representative Faison

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

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

EFFECTIVE DATE: July 1, 2005

BILL SUMMARY: The present law provides for a cap on the amount of earnings that a re-employed retired employee may earn without reduction of the employee's retirement benefits. The earnable amount is the greater of 50% of the salary the member was earning prior to retirement or \$25,420. A provision within that section permits re-employment of retired public school employees who have been retired at least six months and have not been employed (except as a substitute teacher or part-time tutor) by any public school system for at least six months, and provides that earnings from employment as a teacher on a substitute, interim, or permanent basis by a public school shall not be counted to reduce the employee's retirement benefits. These provisions are scheduled to expire June 30, 2005. This bill changes the reference from "retired teacher" to "retired teacher or school administrative personnel" and defines the term to include teacher, principal, assistant principal or central office administrative personnel. It also extends the sunset on the provision to June 30, 2006.

ESTIMATED IMPACT:

Retirement System Actuary: Mellon estimates the cost to be 0.04% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$3.2M	\$3.4M	\$3.5M	\$3.7M	\$3.9M
Highway Fund	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M
Receipt Funds	<u>\$1.0M</u>	<u>\$1.1M</u>	<u>\$1.2M</u>	<u>\$1.2M</u>	<u>\$1.3M</u>
TOTAL COST	\$4.4M	\$4.7M	\$4.9M	\$5.1M	\$5.3M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.05% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$4.0M	\$4.2M	\$4.4M	\$4.6M	\$4.9M
Highway Fund	\$0.2M	\$0.2M	\$0.2M	\$0.2M	\$0.2M
Receipt Funds	<u>\$1.3M</u>	<u>\$1.4M</u>	<u>\$1.4M</u>	<u>\$1.5M</u>	<u>\$1.6M</u>
TOTAL COST	\$5.6M	\$5.8M	\$6.1M	\$6.4M	\$6.7M

There are available gains of 0.47% of payroll in the Teachers' and State Employees' Retirement System to fund this sunset extension, without increasing the contribution rate.

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, 2003 actuarial valuation of the fund. The data included 303,768 active members with an annual payroll of \$10.1 billion and 123,077 retired members in receipt of annual pensions totaling \$2.1 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.

SOURCES OF DATA: System Actuary - Mellon
 General Assembly Actuary - Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: The estimated cost is determined by using the assumed rates of retirement versus the actual rates of retirement for members of this group.

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: March 29, 2005
Signed Copy Located in the NCGA Principal Clerk's Offices

