

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 763 (First Edition)
SHORT TITLE: Fire and Rescue Workers' Retirement.
SPONSOR(S): Representative Culpepper

FUNDS AFFECTED: Local Funds

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System.

EFFECTIVE DATE: January 1, 2006

BILL SUMMARY: Changes the eligibility for retirement for firemen and rescue workers to 30 years at any age or age 55 with 5 years of service. Also requires local government employers to contribute 5% of workers' monthly pay to the Supplemental Retirement Plan [401(K)]. This will extend to full-time local firefighters and rescue squad workers supplemental retirement income benefits formerly provided solely to law enforcement officers.

ESTIMATED IMPACT: Local Governmental Employees' Retirement System

Retirement System Actuary: Mellon estimates the normal cost to increase by 0.44% of payroll from 4.80% to 5.24% of payroll for all firefighters and rescue squad workers in the Local Governmental Employees' Retirement System. They estimate the accrued liability to increase by \$32.5 million, which would require an additional annual accrued liability payment of \$2.8 million based on a 15-year amortization period.

Table with 6 columns: Retirement, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10. Rows include Normal Cost, Accrued Liability, and Retirement Cost.

General Assembly Actuary: Hartman & Associates estimates the normal cost to increase by 0.63% of payroll from 4.80% to 5.43% and the accrued liability contribution to increase by 0.37% of payroll for a total increase of 1% of payroll for all firefighters and rescue squad workers in the Local Governmental Employees' Retirement System.

Table with 6 columns: Retirement, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10. Rows include Normal Cost, Accrued Liability, and Retirement Cost.

**There are available actuarial gains of 0.52% of total payroll of \$4.270 billion of all employees of the Local Governmental Employees' Retirement System. These gains are equal to \$22.2 million of local funds.**

The required employer contributions to the 401(K) Plan will be 5% of salary. The estimated salary is \$397 million so 5% contributions would equal \$19.8 million annually for the 10,314 employees. Presently there are about 5,900 employees that their employers are making some contribution to the 401(K) Plan on behalf of the employee and about 4,400 that the employer is making no contribution to the 401(K) Plan. By taking the contributions that are presently being made, we estimate the additional cost to local employers as follows:

<b><u>401(K) Cost</u></b>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
5% of Salary	\$9.9M	\$21.1M	\$22.3M	\$23.6M	\$25.0M
Employer Contributions	<u>\$5.4M</u>	<u>\$11.3M</u>	<u>\$12.0M</u>	<u>\$12.7M</u>	<u>\$13.5M</u>
Net Cost	\$4.5M	\$ 9.7M	\$10.3M	\$10.9M	\$11.5M

**The cost for the contributions to the Supplemental Retirement Plan [401(K) Plan] cannot be paid from actuarial gains within the Local System, so this will be a direct cost to each unit of local government that employs firemen or rescue squad workers.**

**ASSUMPTIONS AND METHODOLOGY: 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, 2003 actuarial valuation of the fund. The data included 119,755 active members with an annual payroll of \$3.9 billion and 34,861 retired members in receipt of annual pensions totaling \$487.5 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 - Mellon  
 General Assembly Actuary - Hartman & Associates, LLC

**TECHNICAL CONSIDERATIONS:** In order to determine who is a fireman or rescue squad worker, the State Firemen's Association and the Association of Rescue Squad & EMT gave the Retirement Systems Division the social security numbers of all those that they considered a full-time paid unit. This enabled the Retirement Systems Division to identify 10,315 fulltime members of the Local Governmental Employees' Retirement System.

**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.

**PREPARED BY:** Stanley Moore

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

**DATE:** April 4, 2005



**Signed Copy Located in the NCGA Principal Clerk's Offices**