GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 777 (Third Edition)

SHORT TITLE: Retirement Technical Changes.-AB

SPONSOR(S): Representatives Bell and J. Harrell

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

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

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: Makes changes as follows:
Sections 1, 2, 3, and 4 amend the laws of the four retirement systems to extend the time in which a member of the system can file his or her application for retirement. Under current law, the member may designate a date, as of the first of the month, not less than one day nor more than 90 days from the filing of the application. This bill extends the time from 90 to 120 days.

Sections 5 and 6 amend the laws for the State system and the Local system relating to the payment of accumulated contributions at the death of a retiree. The bill states that the term "accumulated contributions" includes voluntary employee contributions from a law enforcement officer's 401(k) plan that have been transferred to the Retirement System.

Sections 7 and 8 repeal a provision authorizing a member to purchase credit for service at the University of North Carolina during which the member participated in the Optional Retirement Program at full cost. The provision is currently in the section of the law relating to benefits. This bill moves the provision to the section relating to membership and service credit.

Sections 9 and 10 amend the laws for the State system and the Local system to make an exception to the cap on reemployment earnings. Those sections provide that a beneficiary's retirement allowance is not suspended when reemployment earnings exceed the cap amount in the month of December.

Section 11 amends the law providing for the purchase of creditable service in the State system for approved leaves of absence under the Workers' Compensation Act. The amendment would allow members in receipt of Workers' Compensation who later become long-term disability beneficiaries to purchase creditable service for the approved period even if the members do not return to service.

Sections 12 and 13 amend the provisions of the Death Benefit Plan and the Survivor's Alternate Benefit for the State system to provide eligibility for beneficiaries who are also in receipt of Workers' Compensation during a period in which they would otherwise have been eligible for short-term disability benefits and who die within 181 days of their last date of service but before their short-term disability benefits have ended.

ESTIMATED IMPACT: Both, Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, agree that the changes would not be expected to produce a significant financial impact to the retirement systems.

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, 2005 actuarial valuation of the fund. The data included 321,513 active members with an annual payroll of $11 billion, 134,719 retired members in receipt of annual pensions totaling $2.5 billion and actuarial value of assets equal to $49.7 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, 2005 actuarial valuation of the fund. The data included 497 active members with an annual payroll of $51 million, 449 retired members in receipt of annual pensions totaling $20.2 million and actuarial value of assets equal to $382.5 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 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, 2005 actuarial valuation of the fund. The data included 170 active members with an annual payroll of $3.7 million, 250 retired members in receipt of annual pensions totaling $1.7 million and actuarial value of assets equal to $28.4 million. 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.

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, 2005 actuarial valuation of the fund. The data included 123,015 active members with an annual payroll of $4.2 billion, 38,448 retired members in receipt of annual pensions totaling $575 million and actuarial value of assets equal to $14.4 billion. 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.

Disability Income Plan of North Carolina

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, 2005 actuarial valuation of the Plan. The data included 333,635 active members with an annual payroll of $11.9 billion and 5,569 disabled members in receipt of annual long term benefits totaling $50.8 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) assumed rates of disability and termination are based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transactions Volume XXXIX, 1987, adjusted by a factor of 0.80, (c) across-the-board salary increases of 5.75%, (d) Social Security disability benefits are assumed to increase 3.75% per year and (e) rates of approval for Social Security benefits prior to completion of four years of disability is 75%. Claims cost for LTD benefits are calculated using the one-year term cost method. 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: Buck Consultants
Hartman & Associates, LLC
Charles W. Dunn

TECHNICAL CONSIDERATIONS: None

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