GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 804 (First Edition)

SHORT TITLE: Retirement Technical Changes.

SPONSOR(S): Senator Stevens

FUNDS AFFECTED: State and Local Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System**,** Legislative Retirement System and Local Governmental Employees' Retirement System.

EFFECTIVE DATE: July 1, 2012

BILL SUMMARY: Section 1: Shorten Period for Employees of New Units Joining the Local Governmental Employees' Retirement System to Opt Out
Outside tax counsel has advised that the 90-day period may not survive IRS scrutiny under U.S. Treasury Regulation § 1.401(k) – 1(a)(3)(v). Counsel advises that 30 days would be a reasonable substitute, since 30-day periods for a one-time irrevocable election are generally permitted by the IRS. This only affects existing employees of local government units when their employer begins participation in the retirement system.

Section 2: Include Actuarial Reports in Plan Documentation for IRS Compliance
The provision ensures that actuarial reports will be considered a part of retirement plan documentation for IRS purposes. The express reference to Internal Revenue Code, with explanatory detail, was recommended by outside tax counsel.

Section 3: Move Dormant Sick Leave Provision in Statute to Enhance Clarity
This provision repositions this law within the statutes for greater clarity and incorporates policy from Office of State Personnel on viability of dormant sick leave. Additionally, the provision aligns statutory language with current practice with UNC Health Care and the N.C. Education Lottery that has been subject of a memorandum of understanding between those agencies and the retirement system.

Section 4: Conform Statutes to New Federal Law on Required Minimum Distributions
This provision adds explicit reference to 401(a) (17); updates Required Minimum Distributions language to mirror 2009 Final IRS Regulation applicable to governmental plans; and reorganizes language to improve the clarity of subsection (d). Changes in subsection (d) are based on the advice of outside tax counsel.

Section 5: Simplify Administration of Survivor's Alternate Benefit
This change would make the Survivor's Alternate Benefit for the Legislative Retirement System align with the statutes for the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System Board of Trustees. This change is requested by the Retirement Systems Division to increase efficiency of administration.

Section 6: Clarify Definition of Full-Time Teacher
This provision clarifies what constitutes full-time employment for teachers, consistent with administrative practice of the Retirement Systems Division. This does not in any way change the current qualifications for receiving a retirement benefit.

Section 7: Conform Statutes to Federal Law on Retirement Trust Funds
This change is required to conform statutes to federal law on retirement trust funds. Language about IRS provisions, trust language, use of trust funds and identification of Plan documents were all recommended by outside tax counsel.

Section 8: Remove Archaic Membership Provisions
This section removes archaic provisions. Outside tax counsel thinks elective membership under Part (2) could be viewed as a non-allowed Cash or Deferred Arrangement (CODA). Counsel also suggested a repeal of Part (5) since, if the triggering event occurred at all, it happened 70 years ago.

Section 9: Clarify Quorum Provisions for Retirement Boards of Trustees
This provision would change the quorum required for decisions made by the Teachers' and State Employees' Retirement System Board of Trustees to parallel the quorum provision for the Local Governmental Employees' Retirement System Board of Trustees. It would also require a minimum number of present members for the transaction of business in both pension plans.

Section 10: Correct Inaccurate Reference to Retiree Health Benefit Fund
This provision corrects a missed reference when the name of the Retiree Health Premium Reserve Account was changed to "Retiree Health Benefit Fund."

ESTIMATED IMPACT ON STATE: Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, does not expect these technical changes to have a material financial impact on any of the 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, 2010 actuarial valuation of the System. The data included 317,740 active members with an annual payroll of $13.1 billion, 163,938 retired members in receipt of annual pensions totaling $3.3 billion and actuarial value of assets equal to $57.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality

tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of nine years. Detailed information concerning these assumptions and methods are 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, 2010 actuarial valuation of the System. The data included 566 active members with an annual payroll of $66.6 million, 543 retired members in receipt of annual pensions totaling $30.8 million and actuarial value of assets equal to $451 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) salary increase rate between 5% and 5.95% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward one year, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year, (f) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit with an amortization period of nine years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. Detailed information concerning these assumptions and methods are 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, 2010 actuarial valuation of the fund. The data included 170 active members with an annual payroll of $3.6 million, 258 retired members in receipt of annual pensions totaling $157,577 and actuarial value of assets equal to $29.8 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 an amortization period of eight years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. 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 are 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, 2010 actuarial valuation of the fund. The data included 122,585 active members with an annual payroll of $5.1 billion, 49,204 retired members in receipt of annual pensions totaling $853.4 million and actuarial

value of assets equal to $18.6 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. Gains and losses are reflected in the normal rate. 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

TECHNICAL CONSIDERATIONS: None

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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