

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Retirement Note

RETIREMENT

BILL NUMBER: House Bill 358 (First Edition)
SHORT TITLE: Retirement Technical Corrections.-AB
SPONSOR(S): Representatives Blust, Collins, Moffitt, and Warren

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, 2013

BILL SUMMARY:

Section 1: Remove Contribution Restrictions on Law Enforcement Officers that Conflict with Internal Revenue Code

Allows members of the Supplemental Retirement Income Plan for State and Local Government Law-Enforcement Officers to make voluntary contributions to the Plan in excess of 10% of the member's compensation within any calendar year. Currently, the statute conflicts with the Internal Revenue Code.

Section 2: USERRA Amendments

Aims to conform and update the State's military service provisions to federal law with respect to the granting of service credit for periods of involuntary military service.

Section 3: Define Membership Service

Expands the definition of "membership service" in the State System and the Local System to include membership service transferred from a sister North Carolina Retirement System. The correction in the definition section of these statutes is necessary to protect rights associated with purchases, health insurance coverage, and several other matters.

Section 4: Define Retirement

Aligns the definition of retirement for the Local System, Legislative System, and Judicial System with the definition in the statutes for the State System. It would also close a current technical hole in the definition of retirement that is needed to align properly with IRS regulations.

Section 5: Clarify ORP Enrollment may be Electronic

Clarifies that enrollment for retirees from the Optional Retirement Program shall be in writing and filed with the Retirement System, with the filing permitted to be via electronic means.

Section 6: Clarification of Benefit Payments in Month of Death for Members of the Disability Income Plan

Clarifies that in the event of death on or after the first of the month, the monthly benefit shall be paid for the entire month unless the approved benefit period ends during the month of death.

Section 7: Clarify Effective Date of Retirement for Conversion from Disability to Service

Establishes the effective date of retirement as the first day of the month following the short-term disability period, should a member elect to receive an early retirement instead of a long-term disability benefit.

Section 8: Improper Receipt of Decedent's Disability Income Plan Allowance.

Repositions the law regarding improper receipt of a Disability Income Plan benefit and clarifies that the law applies to the fraudulent receipt of any retirement or disability benefit. Currently, the statute refers to a retiree, but within the confines of the Disability Income Plan, disability may be granted without a participant becoming retired. Therefore, not all benefit recipients are necessarily retirees.

Section 9: Timeframe for filing Roster

Requires the North Carolina Association of Rescue and Emergency Medical Services to file a roster meeting the specified requirements with the State Treasurer before January 31 of each year. DHHS is also required to furnish a list of ambulance service members to the State Treasurer on or about January 31 of each year.

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, 2011 actuarial valuation of the System. The data included 310,627 active members with an annual payroll of \$12.8 billion, 171,786 retired members in receipt of annual pensions totaling \$3.5 billion and actuarial value of assets equal to \$58.1 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 twelve 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, 2011 actuarial valuation of the System. The data included 566 active members with an annual payroll of \$67.8 million, 562 retired members in receipt of annual pensions totaling \$32.3 million and actuarial value of assets equal to \$460.6 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 twelve 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, 2011 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.6 million, 278 retired members in receipt of annual pensions totaling \$2.1 million and actuarial value of assets equal to \$29.4 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 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, 2011 actuarial valuation of the fund. The data included 121,638 active members with an annual payroll of \$5.1 billion, 51,700 retired members in receipt of annual pensions totaling \$909 million and actuarial value of assets equal to \$19.3 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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DATE: April 2, 2013



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