

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1031

SHORT TITLE: Retirement Incentive

SPONSORS(S): Representative Grady

BILL SUMMARY: House Bill 1031 provides an annual allowance of **0.85%** of a member's base salary for each year of creditable service that the member has in the Teachers' and State Employees' Retirement System. To qualify to receive the annual separation allowance, the member must retire with an effective date of retirement not earlier than July 1, 1997 and not later than January 1, 1998. The member must be under age 62 and (1) have 30 years of creditable service or (2) have attained age 60 with 25 or more years of creditable service. The benefit will stop at age 62 or earlier if the member dies, or is re-employed with any employer covered under the Retirement System. **The allowance is payable monthly as salary by the member's employer until the member turns age 62. The separation allowance is not paid from the Retirement System**

ASSUMPTIONS AND METHODOLOGY: To determine who was eligible, the service of the members of the Retirement System was projected to December, 1997. The members who would have 30 or more years at that time but less than age 62 and the members who would be ages 60 and 61 with 25 or more years of service, both assuming that each member had six months of sick leave, were included. The estimated separation allowance was calculated to determine the annual payout to all eligible members assuming all 7,838 retire July 1, 1997 based on the service and salary of the different groups of employees. Also, the estimated separation allowance payments do not take into consideration that any members will die before reaching age 62. The 1997-98 estimated payroll adjustments assume that all eligible employees will retire July 1, 1997 and each employee will be replaced at 80% of the retiring employee's salary and each teacher will be replaced with an average salary of 65% of the salary of the retiring teacher. The average salary of a new hire teacher during the 1996-97 school year was \$26,570. The estimated payroll adjustments are calculated by using the replacement rate of 80% of the retiring member's salary, but no adjustments were assumed as to salary increases that would be granted in future years. The net effect of future salary increases would increase the estimated payroll adjustments, resulting in greater saving, because the cost to give existing members would be greater than at the replacement level. The estimated net effect shows the cost or saving to the sources of salary.

TECHNICAL CONSIDERATIONS: Some departments, universities, community colleges and school systems might find it hard to replace needed personnel if all those eligible retire between July 1, 1997 and January 1, 1998. Also this could be very disruptive and difficult to replace teachers during the school year. An amendment might be considered to require the members who meet the eligibility requirements set forth in the bill between July 1, 1997 and January 1, 1998 to notify their employer in writing of their intentions to retire and have a mutually agreed upon date of retirement, which can not be later than August 1, 1998. This way, all employers will know how many members will be retiring and when, so that recruitment for positions can begin and all reorganizations can be planned.

POSITIONS & PRINCIPAL DEPARTMENT(S) There are an estimated 7,838 members who have 30 or more years or are ages 60 and 61 with 25 or more years of retirement credit. The total salary, including retirement and Social Security contributions, of these members was \$420.2 million for the calendar year of 1996. The number of members by type employers, average salary and average service are as follows:

Departments	1,225	\$42,714	31.7225
Universities	896	\$54,200	31.4398
Community Colleges	386	\$53,565	31.5578
Teachers	3,011	\$43,543	31.6903
Other School Employees	1,493	\$44,475	31.2971
Highway Employees	<u>827</u>	\$43,051	32.7357
Total	7,838	\$45,170	31.6000

EFFECTIVE DATE: The effective date of retirement not earlier than July 1, 1997 and not later than January 1, 1998

FISCAL IMPACT

Yes (X) No () No Estimate Available ()

ESTIMATED SEPARATION ALLOWANCE

	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
General Fund	\$81.7m	\$73.2m	\$65.7m	\$59.7m	\$53.2m
Highway Fund	\$9.9m	\$9.1m	\$8.3m	\$7.5m	\$6.8m
Receipt Funds	<u>\$3.5m</u>	<u>\$3.2m</u>	<u>\$2.9m</u>	<u>\$2.9m</u>	<u>\$2.3m</u>
TOTAL	\$95.1m	\$85.5m	\$76.9m	\$70.1m	\$62.3m

ESTIMATED PAYROLL ADJUSTMENTS

The following reflects the savings if each position is replaced with another employee earning no more than 80% of the retiring employee's salary and each teacher is replaced with another teacher earning no more than 65% of the retiring teacher's salary.

General Fund	(\$94.4m)	(\$94.4m)	(\$94.4m)	(\$94.4m)	(\$94.4m)
Highway Fund	(\$8.4m)	(\$8.4m)	(\$8.4m)	(\$8.4m)	(\$8.4m)
Receipt Funds	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>
TOTAL	(\$105.9m)	(\$105.9m)	(\$105.9m)	(\$105.9m)	(\$105.9m)

ESTIMATED NET EFFECT

General Fund	(\$12.7m)	(\$21.2m)	(\$28.7m)	(\$34.7m)	(\$41.2m)
Highway Fund	\$1.5m	\$0.7m	(\$0.1m)	(\$0.9m)	(\$1.6m)
Receipt Funds	<u>\$0.4m</u>	<u>\$0.1m</u>	<u>(\$0.2m)</u>	<u>(\$0.2m)</u>	<u>(\$0.8m)</u>
TOTAL	(\$10.8m)	(\$20.4m)	(\$29.0m)	(\$35.8m)	(\$43.6m)

MORE DETAIL SHOWN ON PAGE 3.

FISCAL RESEARCH DIVISION: 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: Tom Covington

DATE: May 22, 1997

Official
Fiscal Research Division
Publication



Signed Copy Located in the NCGA Principal Clerk's Offices

The following is breakdown by employer groups:

ESTIMATED SEPARATION ALLOWANCE

	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
General Fund					
Departments	\$10.6m	\$9.6m	\$8.6m	\$7.8m	\$6.9m
Universities	\$12.2m	\$9.8m	\$7.8m	\$6.3m	\$5.1m
Community Colleges	\$5.4m	\$4.8m	\$4.3m	\$3.7m	\$3.2m
Public School Teachers	\$35.9m	\$33.0m	\$30.4m	\$28.5m	\$26.0m
Other School Employees	<u>\$17.6m</u>	<u>\$16.0m</u>	<u>\$14.6m</u>	<u>\$13.4m</u>	<u>\$12.0m</u>
Total General Fund	\$81.7m	\$73.2m	\$65.7m	\$59.7m	\$53.2m
Highway Fund	\$9.9m	\$9.1m	\$8.3m	\$7.5m	\$6.8m
Receipt Funds	<u>\$3.5m</u>	<u>\$3.2m</u>	<u>\$2.9m</u>	<u>\$2.9m</u>	<u>\$2.3m</u>
TOTAL	\$95.1m	\$85.5m	\$76.9m	\$70.1m	\$62.3m

ESTIMATED PAYROLL ADJUSTMENTS

The following reflects the savings if each position is replaced with another employee earning no more than 80% of the retiring employee's salary and each teacher is replaced with another teacher earning no more than 65% of the retiring teacher's salary.

General Fund					
Departments	(\$9.3m)	(\$9.3m)	(\$9.3m)	(\$9.3m)	(\$9.3m)
Universities	(\$11.5m)	(\$11.5m)	(\$11.5m)	(\$11.5m)	(\$11.5m)
Community Colleges	(\$4.9m)	(\$4.9m)	(\$4.9m)	(\$4.9m)	(\$4.9m)
Public Schools Teachers	(\$54.4m)	(\$54.4m)	(\$54.4m)	(\$54.4m)	(\$54.4m)
Other School Employees	<u>(\$14.3m)</u>	<u>(\$14.3m)</u>	<u>(\$14.3m)</u>	<u>(\$14.3m)</u>	<u>(\$14.3m)</u>
Total General Fund	(\$94.4m)	(\$94.4m)	(\$94.4m)	(\$94.4m)	(\$94.4m)
Highway Fund	(\$8.4m)	(\$8.4m)	(\$8.4m)	(\$8.4m)	(\$8.4m)
Receipt Funds	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>	<u>(\$3.1m)</u>
TOTAL	(\$105.9m)	(\$105.9m)	(\$105.9m)	(\$105.9m)	(\$105.9m)

ESTIMATED NET EFFECT

General Fund					
Departments	\$1.3m	\$0.3m	(\$0.7m)	(\$1.5m)	(\$2.4m)
Universities	\$0.7m	(\$1.7m)	(\$3.7m)	(\$5.2m)	(\$6.4m)
Community Colleges	\$0.5m	(\$0.1m)	(\$0.6m)	(\$1.2m)	(\$1.7m)
Public School Teachers	(\$18.5m)	(\$21.4m)	(\$24.0m)	(\$25.9m)	(\$28.4m)
Other School Employees	<u>\$3.3m</u>	<u>\$1.7m</u>	<u>\$0.3m</u>	<u>(\$0.9m)</u>	<u>(\$2.3m)</u>
Total General Fund	(\$12.7m)	(\$21.2m)	(\$28.7m)	(\$34.7m)	(\$41.2m)
Highway Fund	\$1.5m	\$0.7m	(\$0.1m)	(\$0.9m)	(\$1.6m)
Receipt Funds	<u>\$0.4m</u>	<u>\$0.1m</u>	<u>(\$0.2m)</u>	<u>(\$0.2m)</u>	<u>(\$0.8m)</u>
TOTAL	(\$10.8m)	(\$20.4m)	(\$29.0m)	(\$35.8m)	(\$43.6m)