NORTH CAROLINA GENERAL ASSEMBLY LEGISLATIVE ACTUARIAL NOTE RETIREMENT

BILL NUMBER: House Bill 1390 (Second Edition)

SHORT TITLE: Retirement Withdrawn Service

SPONSOR(S): Representative Nesbitt

SYSTEM AFFECTED: Teachers' and State Employees' Retirement System

BILL SUMMARY: Repeals the law, which allows members to purchase withdrawn service after they have returned and worked for 10 years. Repeals the requirement that the purchase of withdrawn service must be made within three years and repeals the 'full cost' method of calculating withdrawn service for member who withdrew after July 1, 1974. Repeals the provision for the "full actuarial cost" for members beyond the three year window and those with more than five years and less than ten years. The bill allows any member with five or more years of service to purchase the withdrawn service by paying the amount withdrew plus 6 1/2% interest compounded annually from year of withdrawal to year of repayment.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT: Buck Consultants estimates the annual cost to be \$2.6 million to fund cost to repeal the 'full cost' method of calculating withdrawn service. No data is available to calculate the cost of repealing the three window of opportunity but actuary believes the cost would be significant. For every 1,000 members who purchase service, the estimated cost will be approximately \$9.0 million per year.

Hartman & Associates estimates the annual cost to be \$2.6 million to fund the cost to repeal the 'full-cost' and estimates the cost to increase due to:

- (1) Reduction in the repayment cost to employees;
- (2) Elimination of the required repayment window; and
- (3) Expansion of number of employees eligible by reducing eligibility to five years.

ASSUMPTIONS AND METHODOLOGY: Teacher's & 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, 1999 actuarial valuation of the fund. The data included 285,784 active members with an annual payroll of \$8.4 billion and 102,939 retired members in receipt of annual pensions totaling \$1.510 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.

SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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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APPROVED BY: James D. Johnson

DATE: June 19, 2001

Official

Fiscal Research Division

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