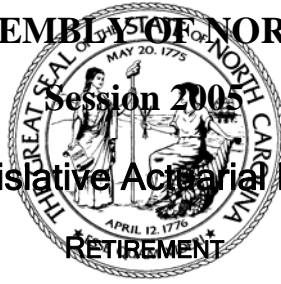


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Actuarial Note

BILL NUMBER: House Bill 1907 (First Edition)
SHORT TITLE: Teachers' & St. Employees' Retire Sys. COLAs.
SPONSOR(S): Representatives Lucas, Bell, and Coleman

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Fund
SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System
EFFECTIVE DATE: July 1, 2006

BILL SUMMARY: Provides a post-retirement increase of 5% in the benefits of retirees of the Teachers' and State Employees' Retirement System

ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 1.70% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$144.0M	\$150.1M	\$156.4M	\$163.0M	\$169.9M
Highway Fund	\$ 7.1M	\$ 7.4M	\$ 7.7M	\$ 8.0M	\$8.4M
Receipt Funds	<u>\$45.9M</u>	<u>\$47.8M</u>	<u>\$49.8M</u>	<u>\$51.9M</u>	<u>\$54.1M</u>
TOTAL COST	\$197.0M	\$205.3M	\$214.0M	\$223.0M	\$232.4M

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.55% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$131.3M	\$136.8M	\$142.6M	\$148.6M	\$154.9M
Highway Fund	\$ 6.5M	\$ 6.8M	\$ 7.0M	\$ 7.3M	\$7.6M
Receipt Funds	<u>\$41.8M</u>	<u>\$43.6M</u>	<u>\$45.4M</u>	<u>\$47.4M</u>	<u>\$49.4M</u>
TOTAL COST	\$179.6M	\$187.2M	\$195.1M	\$203.3M	\$211.9M

There are available gains of 0.70% of payroll in the Teachers' and State Employees' Retirement System so an increase in the employer contribution rate to the retirement system would be necessary to pay the additional cost. The appropriation needed is as follows:

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$84.7M	\$88.3M	\$92.0M	\$95.9M	\$99.9M
Highway Fund	\$ 4.2M	\$ 4.4M	\$ 4.5M	\$ 4.7M	\$4.9M
Receipt Funds	<u>\$27.0M</u>	<u>\$28.1M</u>	<u>\$29.3M</u>	<u>\$30.5M</u>	<u>\$31.8M</u>
TOTAL COST	\$115.9M	\$120.8M	\$125.9M	\$131.2M	\$136.7M

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, 2004 actuarial valuation of the fund. The data included 311,612 active members with an annual payroll of \$10.4 billion and 128,577 retired members in receipt of annual pensions totaling \$2.3 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: Buck Consultants
Hartman and Associates, LLC

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.

PREPARED BY: Stanley Moore

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division



DATE: May 12, 2006

Signed Copy Located in the NCGA Principal Clerk's Offices