GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT
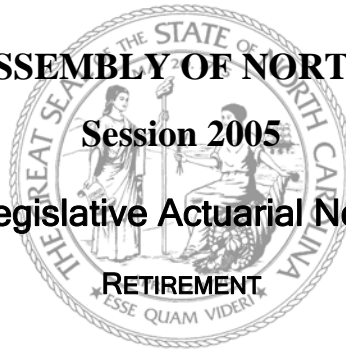
BILL NUMBER: House Bill 2651 (First Edition)

SHORT TITLE: Roth 401k Accounts/Law Enforcement Officers.

SPONSOR(S):   Representatives Wilson and Bell

FUNDS AFFECTED: Law enforcement officers' contributions made from payroll deductions.

SYSTEM OR PROGRAM AFFECTED: Supplemental Retirement Income Plan [401(k)}

EFFECTIVE DATE: July 1, 2006

BILL SUMMARY: Amends GS 143-166.30(h) and 143-166.50(c) to provide that no eligible officer is precluded from exercising the officer's pending or inchoate rights under those sections if the officer elects to make Roth after-tax contributions to the Supplemental Retirement Income Plan, except that Roth contributions and earnings may not subsequently be transferred to the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System.

ESTIMATED IMPACT ON STATE: Both the retirement system's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree there will be no cost to either the Teachers' and State Employees' Retirement System or the Local Governmental Employees' Retirement System.

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) annual salary increase rates from 5.45% to 12.08% which includes an inflation rate of 3.75% (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.

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, 2004 actuarial valuation of the fund. The data included 121,262 active members with an annual payroll of $4.1 billion and 36,728 retired members in receipt of annual pensions totaling $525.2 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1979 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 projected benefit method with aggregate level normal cost and frozen accrued liability. 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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                              Fiscal Research Division

Official **Fiscal Research Division** Publication

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Signed Copy Located in the NCGA Principal Clerk's Offices