

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 383 (First Edition)

SHORT TITLE: Purchase of Federal Retirement Service.

SPONSOR(S): Representative Tucker

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System.

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: Allows a member of the Teacher's and State Employee's Retirement System to purchase as creditable service any service rendered as a teacher while employed with the federal government. The cost is equal to "one-half" of the cost which is calculated based on the monthly contribution that the member made when first employed times the number of months to be purchased plus 6 ½% from the year of employment to the year of purchase. This cost calculation method usually produced a cost for the purchased service what does not pay the liability on the system as a result of the purchase.

There is existing law that will allow a member of the Teacher's and State Employee's Retirement System to purchase as creditable service any service rendered while employed with the federal government. However, the member is required to pay the full actuarial cost for this purchase, which normally results in a higher cost than would be calculated under the one-half cost method.

ESTIMATED IMPACT: There is no data available on the number of members who have taught school while they were a federal employee nor how many years might be purchased if the bill was enacted. The retirement system's actuary, Buck Consultants, estimates the cost could be as high as 0.51% of the payroll of all members of the Teachers' and State Employees' Retirement System if a total of 128,000 years are purchased. This could amount to cost up to \$64 million annually.

The General Assembly Actuary, Hartman & Associates, estimates the cost to be significant given the number of teachers in the Teachers' and State 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, 2005 actuarial valuation of the fund. The data included 321,513 active members with an annual payroll of \$11 billion, 134,719 retired members in receipt of annual pensions totaling \$2.5 billion and actuarial value of assets

equal to \$49.7 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 & 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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APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

DATE: April 6, 2007



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