GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 777 (First Edition)

SHORT TITLE: Retirement Technical Changes.-AB

SPONSOR(S):   Representatives Bell and J. Harrell

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: Makes technical correction as follows:
(1)   Increases the filing time for an Application for Retirement from 90 days to 120 days in the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, and the Local Governmental Employees' Retirement System;

(2)   Adds language in the State and Local Systems to include the Guaranteed Refunds for amounts of employee voluntary contributions that were transferred from the Supplemental Retirement Income Plan {401(k)} to one of the two systems by eligible law enforcement officers;

(3)   Changes the law to allow a member to receive a minimum payment during the short-term disability period in order to be "in receipt of benefits" so that they would qualify for the Death Benefit and Survivor's Alternate Benefit;

(4)   Changes the location of law relating to a member of the Teachers' and State Employees Retirement System purchasing service for periods of employment with the University of North Carolina during which the member participating in the Optional Retirement Program.

ESTIMATED IMPACT: Both, Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, agree that the changes would not be expected to produce a significant financial impact to the retirement systems.

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.

Consolidated Judicial 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 497 active members with an annual payroll of $51 million, 449 retired members in receipt of annual pensions totaling $20.2 million and actuarial value of assets equal to $382.5 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 Table for deaths after retirement, and (d) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected benefit method; however, the method used to determine the contribution rate is the projected unit credit method with 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.

Legislative 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 170 active members with an annual payroll of $3.7 million, 250 retired members in receipt of annual pensions totaling $1.7 million and actuarial value of assets equal to $28.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality Tables for deaths in service and after retirement and (c) 100% vesting after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with service prorate. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. 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, 2005 actuarial valuation of the fund. The data included 123,015 active members with an annual payroll of $4.2 billion, 38,448 retired members in receipt of annual pensions totaling $575 million and actuarial value of assets equal to $14.4 billion. 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.

Disability Income Plan of North Carolina
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 Plan. The data included 333,635 active members with an annual payroll of $11.9 billion and 5,569 disabled members in receipt of annual long term benefits totaling $50.8 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) assumed rates of disability and termination are based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transactions Volume XXXIX, 1987, adjusted by a factor of 0.80, (c) across-the-board salary increases of 5.75%, (d) Social Security disability benefits are assumed to increase 3.75% per year and (e) rates of approval for Social Security benefits prior to completion of four years of disability is 75%. Claims cost for LTD benefits are calculated using the one-year term cost method. 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
Charles W. Dunn

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.

PREPARED BY: Stanley Moore

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

DATE: May 21, 2007

Signed Copy Located in the NCGA Principal Clerk's Offices