GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1473 (Eighth Edition)

SHORT TITLE: 2007 Appropriations Act.

SPONSOR(S):

SECTION 28.20 PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE JUDICIAL RETIREMENT SYSTEM AND THE LEGISLATIVE RETIREMENT SYSTEM.

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, and Legislative Retirement System.

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System and Legislative Retirement System.

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: The bill grants a 2% cost of living adjustment to the retirees of the Teachers and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System effective July 1, 2007

ESTIMATED IMPACT ON THE STATE:
2% COLA for retirees of the Teachers' and State Employees' Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 0.66% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$61.1M	$63.5M	$66.1M	$68.8M	$71.6M
Highway Fund	$2.9M	$3.0M	$3.2M	$3.3M	$3.4M
Receipt Funds	$19.1M	$19.9M	$20.7M	$21.5M	$22.4M
TOTAL COST	**$83.1M**	**$86.5M**	**$90.0M**	**$93.7M**	**$97.5M**

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.64% the payroll of all members of the Teachers' and State Employees' Retirement System.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$59.2M	$61.6M	$64.1M	$66.7M	$69.5M
Highway Fund	$2.8M	$2.9M	$3.1M	$3.2M	$3.3M
Receipt Funds	$18.5M	$19.3M	$20.1M	$20.9M	$21.7M

| TOTAL COST | $80.6M | $83.9M | $87.3M | $90.8M | $94.5M |

The above cost would be reduced by the gains available within the system equal to 0.34% of payroll in the Teachers' and State Employees' Retirement System. Contributions to the Retirement System should be as following in future years.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$29.6M	$30.8M	$32.1M	$33.4M	$34.7M
Highway Fund	$1.4M	$1.5M	$1.5M	$1.6M	$1.7M
Receipt Funds	$9.3M	$9.6M	$10.0M	$10.4M	$10.9M
TOTAL COST	**$40.3M**	**$41.9M**	**$43.6M**	**$45.4M**	**$47.3M**

2% COLA for retirees of the Consolidated Judicial Retirement System
Retirement System Actuary: Buck Consultants estimates the cost to be 1.10% of the payroll of all members of the Consolidated Judicial Retirement System.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$649,000	$670,222	$692,139	$714,772	$738,145

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.04% the payroll of all members of the Consolidated Judicial Retirement System.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$613,600	$633,665	$654,386	$675,784	$697,882

There are available gains in the Consolidated Judicial Retirement System to fund this increase.

2% COLA for retirees of the Legislative Retirement System
Retirement System Actuary: Charles W. Dunn estimates the cost to be 1.16% of the payroll of all members of the Legislative Retirement System.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$41,760	$41,760	$41,760	$41,760	$41,760

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.18% the payroll of all members of the Legislative Retirement System.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$42,480	$42,480	$42,480	$42,480	$42,480

SECTION 28.21   INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

FUNDS AFFECTED: General Fund

SYSTEM OR PROGRAM AFFECTED: Firemen and Rescue Squad Workers' Pension Fund

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from $165 to $167.

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants and the General Assembly's actuary, Hartman & Associates, LLC, estimates the cost to be as follows:

	2007-08	2008-09	2009-10	2010-11	2011-12
Benefit Increase	$656,400	$656,400	$656,400	$656,400	$656,400

There are actuarial gains in the Fund in the amount of $362,863 so an appropriation of $293,500 is required.

SECTION 28.21A   ENHANCE BENEFITS PAYABLE THROUGH THE NATIONAL GUARD PENSION FUND

FUNDS AFFECTED: General Fund

SYSTEM OR PROGRAM AFFECTED: North Carolina National Guard Pension Fund

EFFECTIVE DATE: July 1, 2007

PROVISION SUMMARY: Increases the benefit from the North Carolina National Guard Pension Fund from $80 to $95 per month for the first 20 years of service and from $8 to $9.50 per month for each additional year of service. This will raise the maximum benefit from $160 to $190 per month.

ESTIMATED IMPACT ON STATE: Both, Buck Consultants, the Retirement System's actuary, and Hartman & Associates, the General Assembly's actuary, agree that the cost will be as follows:

	2007-08	2008-09	2009-10	2010-11	2011-12
Annual Cost	$2,384,025	$2,384,025	$2,384,025	$2,384,025	$2,384,025

There is appropriated $7,007,443 in the Continuation Budget for each year of the 2007-09 biennium budget. The Fund requires a contribution of $3,847,884 for each year, so the excess budgeted amount of $3,159,559 can be used to provide this increase.

INCLUDE PUBLIC DEFENDERS AS MEMBERS OF THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

FUNDS AFFECTED: General Fund

SYSTEM OR PROGRAM AFFECTED: Consolidated Judicial Retirement System

EFFECTIVE DATE: July 1, 2007

PROVISION SUMMARY: Public defenders are presently members of the Teachers' and State Employees' Retirement System. This bill will transfer all public defenders, who are serving on July 1, 2007, from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System along with all their service as a public defender prior to July 1, 2007. Those who become public defenders after July 1, 2007 will also be members of the Consolidated Judicial Retirement System.

ESTIMATED IMPACT ON STATE: Both, the Systems' actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the employer contribution rate will increase from 3.34% of payroll in the State System to 12.59% of payroll in the Judicial System, an increase of 9.25%. The estimated increase based on an estimated payroll of $2.1 million is as follows:

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$194,250	$200,602	$207,162	$213,936	$220,932

Retirement System Actuary: Buck Consultants estimates the cost to be 0.62% of the payroll of all members of the Consolidated Judicial Retirement System to transfer all service as a public defender from the Teachers' and State Employees' Retirement System prior to July 1, 2007.

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$378,200	$390,567	$403,339	$416,528	$430,148

General Assembly Actuary**:** Hartman & Associates estimates the cost to be as follows:

	2007-08	2008-09	2009-10	2010-11	2011-12
General Fund	$390,000	$390,000	$390,000	$390,000	$390,000

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 prorated. 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.

Firemen's and Rescue Squad Workers' Pension Fund
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2006 actuarial valuation of the fund. The data included 34,112 active members and 9,659 retired members in receipt of annual pensions totaling $19.1 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1994 Group Annuity Mortality Tables for deaths before and after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the projected benefit method with entry age normal cost and open-end 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.

North Carolina National Guard Pension Fund   The cost estimates of the Fund'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 5,853 active members, 4,076 former members entitled to deferred benefits and 2,640 retired members in receipt of annual pensions totaling $3.7 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1979 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age 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
Charles W. Dunn

TECHNICAL CONSIDERATIONS: None

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