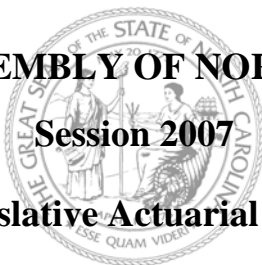


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 2436 (Third Edition)

SHORT TITLE: Modify Appropriations Act of 2007.

SPONSOR(S): Representatives Adams, M. Alexander, Crawford, and Michaux

SECTION 23.23 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, 2008

BILL SUMMARY: The bill grants a 2.2% 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, 2008

ESTIMATED IMPACT ON THE STATE:

2.2% COLA for retirees of the Teachers' and State Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 0.73% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$71.2M	\$74.3M	\$77.5M	\$80.8M	\$84.3M
Highway Fund	\$3.4M	\$3.6M	\$3.7M	\$3.9M	\$4.1M
Receipt Funds	<u>\$25.6M</u>	<u>\$26.7M</u>	<u>\$27.9M</u>	<u>\$29.1M</u>	<u>\$30.3M</u>
TOTAL COST	\$100.3M	\$104.6M	\$109.1M	\$113.8M	\$118.7M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.68% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$66.3M	\$69.2M	\$72.2M	\$75.3M	\$78.5M
Highway Fund	\$3.2M	\$3.3M	\$3.5M	\$3.6M	\$3.8M
Receipt Funds	<u>\$23.9M</u>	<u>\$24.9M</u>	<u>\$26.0M</u>	<u>\$27.1M</u>	<u>\$28.2M</u>
TOTAL COST	\$93.4M	\$97.4M	\$101.6M	\$106.0M	\$110.5M

The above cost would be reduced by the gains available within the system equal to 0.42% of payroll in the Teachers' and State Employees' Retirement System. Contributions to the Retirement System should be as follows for future years.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$30.2M	\$31.5M	\$32.9M	\$34.3M	\$35.8M
Highway Fund	\$1.5M	\$1.5M	\$1.6M	\$1.7M	\$1.7M
Receipt Funds	<u>\$10.9M</u>	<u>\$11.3M</u>	<u>\$11.8M</u>	<u>\$12.3M</u>	<u>\$12.9M</u>
TOTAL COST	\$42.6M	\$44.4M	\$46.3M	\$48.3M	\$50.4M

2.2% COLA for retirees of the Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 1.14% of the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$695,400	\$710,977	\$726,903	\$743,185	\$759,833

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.12% the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$683,200	\$698,504	\$714,150	\$730,147	\$746,502

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

2.2% COLA for retirees of the Legislative Retirement System

Retirement System Actuary: Charles W. Dunn estimates the cost to be 1.34% of the payroll of all members of the Legislative Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$48,508	\$48,508	\$48,508	\$48,508	\$48,508

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.30% the payroll of all members of the Legislative Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$47,060	\$47,060	\$47,060	\$47,060	\$47,060

SECTION 26.24 INCLUDE THE DIRECTOR OF THE OFFICE OF INDIGENT DEFENSE SERVICES AS A MEMBER OF THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

FUNDS AFFECTED: General Fund

SYSTEM OR PROGRAM AFFECTED: Consolidated Judicial Retirement System

EFFECTIVE DATE: July 1, 2008

PROVISION SUMMARY: The Director of the Office of Indigent Defense Services is presently a member of the Teachers' and State Employees' Retirement System. This bill will transfer the director, who is serving on July 1, 2008, from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System along with all his service as the director or as a public defender prior to July 1, 2008. Those who become the director after July 1, 2008 will also become 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 3.73% in the State System to 13.21% on the salary of the director, an increase of 9.48. They also estimate the cost to be 0.16% of the payroll of the Consolidated Judicial Retirement System to transfer all service prior to July 1, 2008 as the director and as a public defender from the State System to the Judicial System. The estimated increase is as follows:

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Contributions	\$13,651	\$14,238	\$14,850	\$15,489	\$16,155
Liability	<u>\$97,832</u>	<u>\$100,023</u>	<u>\$102,264</u>	<u>\$104,555</u>	<u>\$106,897</u>
Total Annual Cost	\$111,483	\$114,262	\$117,114	\$120,044	\$123,052

Hartman & Associates estimates the decrease in the liability in the State System of about \$58,000 per year.

There are available gains of 1.90 of payroll in the Consolidated Judicial Retirement System to fund this change in membership.

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, 2006 actuarial valuation of the fund. The data included 330,117 active members with an annual payroll of \$11.7 billion, 140,292 retired members in receipt of annual pensions totaling \$2.7 billion and actuarial value of assets equal to \$52.4 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) average salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are not adjusted for male teachers, set forward one year for female teachers, set forward

two years for general employees and law enforcement officers and set forward two years for the beneficiaries of deceased member (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a frozen 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, 2006 actuarial valuation of the fund. The data included 512 active members with an annual payroll of \$53.3 million, 460 retired members in receipt of annual pensions totaling \$23.9 million and actuarial value of assets equal to \$406 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are set forward two years for post-retirement period and set back one year for pre-retirement period. Special mortality tables are used for period after disability 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 unit credit. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. 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, 2006 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.7 million, 245 retired members in receipt of annual pensions totaling \$1.7 million and actuarial value of assets equal to \$29.6 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 prorata. 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, 2006 actuarial valuation of the fund. The data included 124,844 active members with an annual payroll of \$4.5 billion, 40,574 retired members in receipt of annual pensions totaling \$639.3 million and actuarial value of assets equal to \$15.6 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members. Special mortality tables are used for period after disability 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. Gains and losses are reflected in the normal rate. 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, Consulting Actuary

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: June 4, 2008



Signed Copy Located in the NCGA Principal Clerk's Offices