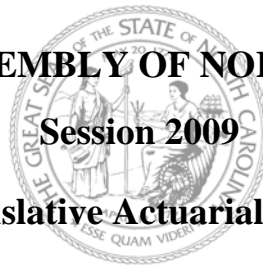


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 624 (First Edition)
SHORT TITLE: 25-Year Law Enforcement Retirement.
SPONSOR(S): Senator Boseman

FUNDS AFFECTED: (1) General Fund, Highway Fund, and Receipt Funds to fund the Teachers' and State Employees' Retirement System and (2) Local Funds to fund the Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, and Local Governmental Employees' Retirement System and the Special Separation Allowance for both state and local law enforcement officer.

EFFECTIVE DATE: July 1, 2009 and January 1, 2010

BILL SUMMARY: The bill reduces the service requirement for receiving an unreduced retirement benefits from 30 years of service at any age to 25 years of service at any age as a law enforcement officer. The bill also makes several changes to the special separation allowance. The requirement of 30 years of service is reduced to 25 years in order to qualify to receive the special separation allowance of .85% of salary for each year of service.

The bill changes the length that the retired law enforcement officers are eligible to receive the Special Separation Allowance until the time they become eligible for unreduced Social Security benefits. Under the present law, benefits stop at age 62. The bill also allows the benefits to continue during re-employment until such time that the retirement benefit is suspended.

ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost will increase by .04% of the payroll of all members of the Teachers' and State Employees' Retirement System. The estimated amount of the separation allowance is shown on a pay-as-you-go basis since there are some questions as to how the fund is to be set up and the funding of future benefits.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$4.1M	\$4.3M	\$4.5M	\$4.8M	\$5.0M
Highway Fund	\$ 0.2M	\$ 0.2M	\$ 0.2M	\$ 0.2M	\$ 0.2M
Receipt Funds	<u>\$ 1.6M</u>	<u>\$ 1.7M</u>	<u>\$ 1.7M</u>	<u>\$ 1.8M</u>	<u>\$ 1.9M</u>
Retirement Cost	\$5.8M	\$6.2M	\$6.5M	\$6.8M	\$7.2M
Separation Allow.	\$0.5M	\$1.2M	\$1.9M	\$2.6M	\$3.3M
TOTAL COST	\$6.3M	\$7.4M	\$8.4M	\$9.4M	\$10.5M

There is additional cost as a result of the Special Separation Allowance continuing until the re-employment of the retiree causes suspension of the basis retirement payment, but the actuary was unable to calculate since no data on the re-employed retirees is available.

General Assembly Actuary: Hartman & Associates estimates the cost will increase by .04% of the payroll of all members of the Teachers' and State Employees' Retirement System. The estimated amount of the separation allowance is shown on a pay-as-you-go basis since there are some questions as to how the fund is to be set up and the funding of future benefits.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$4.1M	\$4.3M	\$4.5M	\$4.8M	\$5.0M
Highway Fund	\$ 0.2M	\$ 0.2M	\$ 0.2M	\$ 0.2M	\$ 0.2M
Receipt Funds	<u>\$ 1.6M</u>	<u>\$ 1.7M</u>	<u>\$ 1.7M</u>	<u>\$ 1.8M</u>	<u>\$ 1.9M</u>
Retirement Cost	\$5.8M	\$6.2M	\$6.5M	\$6.8M	\$7.2M
Separation Allow.	<u>\$1.0M</u>	<u>\$3.0M</u>	<u>\$4.3M</u>	<u>\$4.8M</u>	<u>\$5.1M</u>
TOTAL COST	\$6.8M	\$9.2M	\$10.8M	\$11.6M	\$12.3M

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Local Governmental Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 5.27% of payroll to 5.72% for a net increase of 0.45% of the payroll of law enforcement officers. Buck estimates the unfunded accrued liability cost will be 1.03% of the payroll of law enforcement officers based on a 24-year amortization period. The estimated payroll is \$920,000,000 for local law enforcement officers.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Normal Cost	\$4.1M	\$4.3M	\$4.6M	\$4.8M	\$5.0M
Unfunded Liability	<u>\$9.5M</u>	<u>\$9.9M</u>	<u>\$10.4M</u>	<u>\$10.9M</u>	<u>\$11.5M</u>
Retirement Cost	\$13.6M	\$14.3M	\$15.0M	\$15.7M	\$16.5M
Separation Allow.	<u>\$ 2.2M</u>	<u>\$ 5.3M</u>	<u>\$ 7.7M</u>	<u>\$10.8M</u>	<u>\$13.6M</u>
TOTAL COST	\$15.8M	\$19.6M	\$22.7M	\$26.5M	\$30.0M

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 5.27% of payroll to 5.72% for a net increase of 0.45% of the payroll of law enforcement officers. Hartman estimates the unfunded accrued liability cost will be 1.02% of the payroll of law enforcement officers based on a 24-year amortization period.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Normal Cost	\$4.1M	\$4.3M	\$4.6M	\$4.8M	\$5.0M
Unfunded Liability	<u>\$9.4M</u>	<u>\$9.8M</u>	<u>\$10.3M</u>	<u>\$10.8M</u>	<u>\$11.3M</u>
Retirement Cost	\$13.5M	\$14.2M	\$14.9M	\$15.6M	\$16.4M
Separation Allow.	<u>\$ 2.6M</u>	<u>\$ 7.9M</u>	<u>\$11.8M</u>	<u>\$14.1M</u>	<u>\$16.4M</u>
TOTAL COST	\$16.1M	\$22.0M	\$26.7M	\$29.7M	\$32.8M

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, 2007 actuarial valuation of the fund. The data included 338,490 active members with an annual payroll of \$12.7 billion, 145,855 retired

members in receipt of annual pensions totaling \$2.9 billion, and actuarial value of assets equal to \$55.3 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), and (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.

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, 2007 actuarial valuation of the fund. The data included 127,959 active members with an annual payroll of \$4.75 billion, 42,408 retired members in receipt of annual pensions totaling \$689.4 million, and actuarial value of assets equal to \$16.8 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 set forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members and 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

TECHNICAL CONSIDERATIONS: There is additional cost as a result of the Special Separation Allowance continuing until the re-employment of the retiree causes suspension of the basis retirement payment, but the actuaries were unable to calculate the additional cost since no data on the re-employed retirees is available.

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:
Bob Weiss
on behalf of Marilyn Chism, Director
Fiscal Research Division



DATE: April 14, 2009

Signed Copy Located in the NCGA Principal Clerk's Offices