



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2011**

**Legislative Actuarial Note**

**RETIREMENT**

**BILL NUMBER:** House Bill 153 (Fifth Edition)

**SHORT TITLE:** No Public Retirement for Convicted Felons.

**SPONSOR(S):**

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**FUNDS AFFECTED:** (1) General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System, Optional Retirement Program and Supplemental Retirement Income Plan of North Carolina (2) General Fund for the Consolidated Judicial Retirement System, (3) General Fund for the Legislative Retirement System and (4) local funds for the Local Governmental Employees' Retirement System and Supplemental Retirement Income Plan of North Carolina.

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System, Optional Retirement Program and Supplemental Retirement Income Plan of North Carolina

**EFFECTIVE DATE:** December 1, 2012 and applies to offenses committed on or after that date.

**BILL SUMMARY:**

Prohibits any member of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System or the Local Governmental Employees' Retirement System from receiving any retirement benefits if the member is convicted of any felon under federal law or the laws of North Carolina committed after December 1, 2012 and the member's conduct is directly related to the member's office or employment. Any member with less than five years of membership service as of December 1, 2012, is prohibited from receiving any retirement benefit other than a return of the member's contributions and interest. Any member with more than five years of membership service as of December 1, 2012, is prohibited from receiving any retirement benefit for any service rendered after December 1, 2012 other than a return of the member's contributions and interest for that period of service.

For members of the University Optional Retirement Program, the Community College Optional Retirement Program whose employer is required to make contributions and for State and local law enforcement officers whose employer is required to make contributions to the Supplemental Retirement Income Plan of North Carolina, any contributions and earning on those contributions made by the employer after December 1, 2012 shall be forfeited if the member is convicted of any felon under federal law or the laws of North Carolina committed after December 1, 2012 and the member's conduct is directly related to the member's office or employment.

The bill allows a member or former member whose benefits are forfeited and who subsequently receives an unconditional pardon of innocence or has the conviction vacated or set aside for any reason to seek a reversal of the benefit forfeiture. Specifies how the State Treasurer must calculate repayment of accumulated contributions if the Treasurer determines that the reversal of the benefit forfeiture is appropriate.

**ESTIMATED IMPACT ON STATE:** Buck Consultants, the Retirement Systems' actuary, Charles Dunn, the Legislative Retirement System actuary and Hartman & Associates, the General Assembly's actuary, agree that the changes would not increase the liabilities or contribution rate to any of the 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, 2010 actuarial valuation of the System. The data included 317,740 active members with an annual payroll of \$13.1 billion, 163,938 retired members in receipt of annual pensions totaling \$3.3 billion and actuarial value of assets equal to \$57.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and an amortization period of nine years. Detailed information concerning these assumptions and methods are 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, 2010 actuarial valuation of the System. The data included 566 active members with an annual payroll of \$66.6 million, 543 retired members in receipt of annual pensions totaling \$30.8 million and actuarial value of assets equal to \$451 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) salary increase rate between 5% and 5.95% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward one year, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year, (f) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit with an amortization period of nine years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. Detailed information concerning these assumptions and methods are 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, 2010 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.6 million, 258 retired members in receipt of annual pensions totaling \$157,577 and actuarial value of assets equal to \$29.8 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 an amortization period of eight years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. 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 are 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, 2010 actuarial valuation of the fund. The data included 122,585 active members with an annual payroll of \$5.1 billion, 49,204 retired members in receipt of annual pensions totaling \$853.4 million and actuarial value of assets equal to \$18.6 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. 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

**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:** Mark Trogdon, Acting Director  
Fiscal Research Division

**DATE:** June 27, 2012



**Signed Copy Located in the NCGA Principal Clerk's Offices**