



GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1074 (First Edition)
SHORT TITLE: Stop Waste, Fraud, and Abuse in Govt. Act.
SPONSOR(S): Representative Moffitt

FUNDS AFFECTED: State and Local Funds

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

EFFECTIVE DATE: July 1, 2012

BILL SUMMARY:

Section 1: Provide Whistleblower Protection for Reporting Retirement Fraud

Provides whistleblower protection to staff of employers in the Local Governmental Employees' Retirement System who report suspected retirement fraud. State employees already have this protection.

Section 2: Provide Tools to Conduct Fraud Investigations

Creates definition of "Fraud Investigation" for the state and local retirement systems, provides access to records for purposes of conducting an investigation, and delineates procedures for reporting on investigations. The provision also protects the identities of whistleblowers and fraud tipsters. The scope of the investigative tools this section would provide is limited to the investigation of retirement fraud. Currently, the department does not have the authority to use the tools this provision would provide to conduct investigations.

Section 3: Provide Authority to Prevent "Salary Spiking"

Allows the Retirement Systems Division to disallow any compensation increase that is deemed an effort to artificially inflate the calculation of average final compensation.

Section 4: Make it a Crime to Keep a Disabled Decedents Benefit

Enacts a new provision in the Disability Income Plan of North Carolina law effective July 1, 2012 to classify the improper receipt of a decedent's retirement benefit as a Class 1 misdemeanor.

Section 5: Clarify Medical Board Appointment Authority

Clarifies the selection process for members of the Medical Review Board, which makes determinations of disability.

ESTIMATED IMPACT ON STATE: Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, does not expect these changes to have a financial impact on 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 a 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.

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

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.

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APPROVED BY: Mark Trogon, Acting Director
Fiscal Research Division

DATE: June 2, 2012



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