# NORTH CAROLINA GENERAL ASSEMBLY

# LEGISLATIVE ACTUARIAL NOTE

**BILL NUMBER**:  House Bill 229

**SHORT TITLE**:  Increase Retirement COLAs

**SPONSOR(S)**:  Representative Michaux

**SYSTEM OR PROGRAM AFFECTED**:    Teacher's & State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System

**FUNDS AFFECTED**:  General Fund, Highway Fund, Receipt Fund and Local Funds

**BILL SUMMARY**:  Provides a post-retirement increase of 2.3% in the benefits of retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System. Provides a post-retirement increase of 1% in the benefits of retirees of the Local Governmental Employees' Retirement System.

**EFFECTIVE DATE**:  July 1, 1999

**ESTIMATED IMPACT ON STATE**:

Teachers' and State Employee's Retirement System

<u>Retirement System Actuary</u>:    Buck Consultants estimates the cost of the 2.3% COLA to be 0.58% of payroll.

|  | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| General Fund | $ 36.3m | $ 38.3m | $ 40.3m | $ 42.4m | $ 44.7m |
| Highway Fund | $  3.0m | $  3.1m | $  3.2m | $  3.3m | $  3.5m |
| Receipt Funds | <u>$  9.8m</u> | <u>$ 10.3m</u> | <u>$ 10.9m</u> | <u>$ 11.5m</u> | <u>$ 12.0m</u> |
| Total | $ 49.1m | $ 51.7m | $ 54.4m | $ 57.2m | $ 60.2m |

<u>General Assembly Actuary</u>:    Hartman & Associates estimates the cost of the 2.3% COLA to be 0.50% of payroll.

|  | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| General Fund | $ 31.3m | $ 33.0m | $ 34.7m | $ 36.6m | $ 38.5m |
| Highway Fund | $  2.5m | $  2.6m | $  2.8m | $  2.9m | $  3.0m |
| Receipt Funds | <u>$  8.5m</u> | <u>$  8.9m</u> | <u>$  9.4m</u> | <u>$  9.9m</u> | <u>$ 10.4m</u> |
| Total | $ 42.3m | $ 45.5m | $ 46.9m | $ 49.4m | $ 51.9m |

Consolidated Judicial Retirement System

<u>Retirement System Actuary</u>:    Buck Consultants estimates the cost of the 2.3% COLA to be .94% of payroll.

|  | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|

| General Fund | $408,900 | $434,824 | $462,392 | $491,708 | $522,882 |

General Assembly Actuary:    Hartman & Associates estimates the cost of the 2.3% COLA to be .89% of payroll.

| | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
| General Fund | | | | | |
| | $387,150 | $411,695 | $437,797 | $465,553 | $495,069 |

<div align="center">Legislative Retirement System</div>

Retirement System Actuary:   Dilts, Umstead & Dunn estimates the cost of the 2.3% COLA to be 1.06% of payroll.

| | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| General Fund | $38,160 | $38,160 | $38,160 | $38,160 | $38,160 |

General Assembly Actuary:    Hartman & Associates estimates the cost of the 2.3% COLA to be 1.19% of payroll.

| | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| General Fund | $42,840 | $42,840 | $42,840 | $42,840 | $42,840 |

<div align="center">Local Governmental Employee's Retirement System</div>

Retirement System Actuary:   Buck Consultants estimates the cost of the 2.3% COLA to be .09% of payroll.

| | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| Local Funds | $2.8m | $3.0m | $3.1m | $3.3m | $3.5m |

General Assembly Actuary:    Hartman & Associates estimates the cost of the 2.3% COLA to be .08% of payroll.

| | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|
| Local Funds | $2.5m | $2.6m | $2.8m | $3.0m | $3.2m |

## ASSUMPTIONS AND METHODOLOGY:

<div align="center">Teacher's & State Employees' Retirement System</div>

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, 1997 actuarial valuation of the fund. The data included 271,128 active members with an annual payroll of $7.374 billion and 92,236 retired members in receipt of annual pensions totaling $1.231 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 an 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, 1997 actuarial valuation of the fund. The data included 456 active members with an annual payroll of $39.7 million and 327 retired members in receipt of annual pensions totaling $10.8 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 an unfunded liquidation period of ten 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, 1997 actuarial valuation of the fund. The data included  167 active members with an annual payroll of $3.6 million and 178 retired members in receipt of annual pensions totaling $950,788. Significant actuarial assumptions used include (a) an investment return rate of 7.5%,  (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 prorate. 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, 1997 actuarial valuation of the fund. The data included 106,802 active members with an annual payroll of $2.743 billion and 25,456 retired members in receipt of annual pensions totaling $261.2 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 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.


**SOURCES OF DATA**:      System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates
Legislative System Actuary  Dilts, Umstead & Dunn

**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. The above cost estimates are bases on the salary base as of July 1, 1999 projected at the average annual increase in compensation base for each system over the last five years. The Legislative System salary base is not projected to increase since salaries have been the same for several years.

**PREPARED BY**:  Stanley Moore

**APPROVED**:  Tom Covington

**DATE** :  March 22, 1999

Official
**Fiscal Research Division**
Publication

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