

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 1677

SHORT TITLE: Professional Firefighters' Retirement

SPONSOR(S): Representative Arnold

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: Local Government Funds

BILL SUMMARY: Defines a "Professional Firefighter" in the Local Governmental Employees' Retirement System and provides for unreduced retirement benefits at any age with 30 years or age 55 with five years of service. Also requires all local employers to contribute 5% of salary to the 401(k) Plan on behalf of all firefighters.

EFFECTIVE DATE: July 1, 2000

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 4.80% of payroll to 5.33% for a net increase of .53% of the payroll of firefighters. Buck Consultants estimates an increase in the unfunded accrued liability of \$10,848,000 and the annual cost to pay the unfunded accrued liability over a 15 year liquidation period will be \$14,075,000 which is expressed as a percent of the total payroll of all employees within each employer.

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Normal Cost Increase	\$773,880	\$823,873	\$877,095	\$933,755	\$994,076
Accrued Liability	\$935,340	\$995,763	\$1,060,089	\$1,128,571	\$1,201,477
401(k)	\$7,300,756	\$7,772,385	\$8,274,481	\$8,809,012	\$9,378,074
Total Local Funds	\$9,009,976	\$9,592,020	\$10,211,665	\$10,871,338	\$11,573,627

General Assembly Actuary: Hartman & Associates, LLC estimates the normal cost will increase from 4.80% of payroll to 5.45% for a net increase of .65% of the payroll of firefighters. They also estimates an increase in the unfunded accrued liability of \$11,677,000 and the annual cost to pay the unfunded accrued liability over a 15 year liquidation period is expressed as .71% of the payroll for firefighters.

	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Normal Cost Increase	\$ 949,098	\$1,010,410	\$1,075,682	\$1,145,172	\$1,219,150
Accrued Liability	\$1,036,707	\$1,103,679	\$1,174,976	\$1,250,880	\$1,331,687
401(k)	\$7,300,756	\$7,772,385	\$8,274,481	\$8,809,012	\$9,378,074
Total Local Funds	\$9,286,561	\$9,886,473	\$10,525,139	\$11,205,063	\$11,928,911

The cost for the 401(k) contributions are overstated. At present there are 158 cities and towns that contribute to the 401(k) Plan on behalf of all employees.

ASSUMPTIONS AND METHODOLOGY: 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, 1998 actuarial valuation of the fund. The data included 108,904 active members with an annual payroll of \$2.930 billion and 26,975 retired members in receipt of annual pensions totaling \$291.4 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.

The above cost estimates are based on 4,421 employees with an estimated salary base of \$146,015,117 projected at the average annual increase in compensation base of 6.46% for the Local System over the next five years.

SOURCES OF DATA: Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION: 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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DATE: June 6, 2000



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