

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 510

SHORT TITLE: Increase Law Enforcement Retirement

SPONSOR(S): Representative Fitch

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund, Receipts and Local Government Funds

BILL SUMMARY: For law enforcement officers, this increases the accrual rate from 1.81% in the Teachers' and State Employees' Retirement System and 1.78% in the Local Governmental Employees' Retirement System to 2.5% per year of service and reduces the years of service required for an unreduced benefit from 30 years to 25 years. The bill also eliminates the special separation allowance of .85% of salary for each year of service for those who retire on or after January 1, 2002

EFFECTIVE DATE: January 1, 2002

ESTIMATED IMPACT ON STATE: Teachers' and State Employee's Retirement System
Retirement System Actuary: Buck Consultants estimates the normal cost will increase by 0557% of the payroll of all members of the Teachers' and State Employee's Retirement System. Buck Consultants estimates the cost to fund the accrued liability cost will be .2140% of the payroll of all members.

<u>General Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$2.0m	\$4.2m	\$4.5m	\$4.8m	\$ 5.0m
Accrued Liability	<u>\$7.7m</u>	<u>\$16.3m</u>	<u>\$17.2m</u>	<u>\$18.2m</u>	<u>\$19.3m</u>
Total General Fund	\$9.7m	\$20.5m	\$21.7m	\$23.0m	\$24.3m
 <u>Highway Fund</u>	 2001-02	 2002-03	 2003-04	 2004-05	 2005-06
Normal Cost Increase	\$0.1m	\$0.2m	\$0.2m	\$0.2m	\$0.3m
Accrued Liability	<u>\$0.4m</u>	<u>\$0.8m</u>	<u>\$0.9m</u>	<u>\$0.9m</u>	<u>\$1.0m</u>
Total Highway Fund	\$0.5m	\$1.0m	\$1.1m	\$1.1m	\$1.2m
 <u>Receipt Funds</u>	 2001-02	 2002-03	 2003-04	 2004-05	 2005-06
Normal Cost Increase	\$0.6m	\$1.3m	\$1.3m	\$1.4m	\$1.5m
Accrued Liability	<u>\$2.3m</u>	<u>\$4.9m</u>	<u>\$5.1m</u>	<u>\$5.4m</u>	<u>\$5.7m</u>
Total Receipt Funds	\$2.9m	\$6.1m	\$6.5m	\$6.8m	\$7.2m

	2001-02	2002-03	2003-04	2004-05	2005-06
Total General Fund	\$9.7m	\$20.5m	\$21.7m	\$23.0m	\$24.3m
Total Highway Fund	\$0.5m	\$1.0m	\$1.1m	\$1.2m	\$1.2m
Total Receipt Funds	<u>\$2.9m</u>	<u>\$6.1m</u>	<u>\$6.5m</u>	<u>\$6.8m</u>	<u>\$7.2m</u>
Total Retirement Cost	\$13.1m	\$27.7m	\$29.3m	\$31.0m	\$32.8m
Less Separation Allowance	<u>\$ 0.2m</u>	<u>\$ 0.5m</u>	<u>\$ 1.1m</u>	<u>\$ 1.9m</u>	<u>\$ 2.7m</u>
TOTAL COST	\$12.9m	\$27.2m	\$28.2m	\$29.1m	\$30.1m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase by .071% of the payroll of all members of the Teachers' and State Employee's Retirement System. Hartman & Associates estimates the cost to fund the accrued liability cost will be .208% of the payroll of all members.

<u>General Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$2.5m	\$5.4m	\$5.7m	\$6.1m	\$ 6.4m
Accrued Liability	<u>\$7.5m</u>	<u>\$15.8m</u>	<u>\$16.7m</u>	<u>\$17.7m</u>	<u>\$18.8m</u>
Total General Fund	\$10.0m	\$21.2m	\$22.4m	\$23.8m	\$25.2m

<u>Highway Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$0.1m	\$0.3m	\$0.3m	\$0.3m	\$0.3m
Accrued Liability	<u>\$0.4m</u>	<u>\$0.8m</u>	<u>\$0.9m</u>	<u>\$0.9m</u>	<u>\$1.0m</u>
Total Highway Fund	\$0.5m	\$1.1m	\$1.2m	\$1.2m	\$1.3m

<u>Receipt Funds</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$0.8m	\$1.6m	\$1.7m	\$1.8m	\$1.9m
Accrued Liability	<u>\$2.2m</u>	<u>\$4.7m</u>	<u>\$5.0m</u>	<u>\$5.2m</u>	<u>\$5.5m</u>
Total Receipt Funds	\$3.0m	\$6.3m	\$6.7m	\$7.0m	\$7.4m

	2001-02	2002-03	2003-04	2004-05	2005-06
Total General Fund	\$10.0m	\$21.2m	\$22.4m	\$23.8m	\$25.2m
Total Highway Fund	\$0.5m	\$1.1m	\$1.2m	\$1.2m	\$1.3m
Total Receipt Funds	<u>\$3.0m</u>	<u>\$6.3m</u>	<u>\$6.7m</u>	<u>\$7.0m</u>	<u>\$7.4m</u>
Total Retirement Cost	\$13.5m	\$28.6m	\$30.3m	\$32.0m	\$33.9m
Less Separation Allowance	<u>\$ 0.2m</u>	<u>\$ 0.6m</u>	<u>\$ 1.2m</u>	<u>\$ 2.0m</u>	<u>\$ 2.9m</u>
TOTAL COST	\$13.3m	\$28.0m	\$29.1m	\$30.0m	\$31.0m

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 5.27% of payroll to 10.98% for a net increase of 5.71% of the payroll of law enforcement officers. Buck Consultants estimates that the first year annual cost to pay the unfunded accrued liability will be \$37,482,000 based on a 15-year amortization period.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$17.6m	\$37.4m	\$39.8m	\$42.3m	\$45.1m
Accrued Liability	<u>\$18.7m</u>	<u>\$39.9m</u>	<u>\$42.5m</u>	<u>\$45.2</u>	<u>\$48.1m</u>
Total Retirement Cost	\$36.3m	\$77.3m	\$82.3m	\$87.5m	\$93.2m
Less Separation Allowance	<u>\$ 0.5m</u>	<u>\$ 1.6m</u>	<u>\$ 3.1m</u>	<u>\$ 5.0m</u>	<u>\$ 7.1m</u>
<u>Total Local Funds</u>	\$35.8m	\$75.7m	\$79.2m	\$82.5m	\$86.1m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 5.27% of payroll to 10.34% for a net increase of 5.07% of the payroll of law enforcement officers. They also estimate that the annual cost to pay the unfunded accrued liability will increase 6.08%.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$15.6m	\$33.2m	\$35.3m	\$37.6m	\$40.0m
Accrued Liability	<u>\$18.7m</u>	<u>\$39.8m</u>	<u>\$42.4m</u>	<u>\$45.1m</u>	<u>\$48.0m</u>
Total Retirement Cost	\$34.3m	\$73.0m	\$77.7m	\$82.7m	\$88.0m
Less Separation Allowance	<u>\$ 0.6m</u>	<u>\$ 1.8m</u>	<u>\$ 3.6m</u>	<u>\$ 5.7m</u>	<u>\$ 8.1m</u>
<u>Total Local Funds</u>	\$33.7m	\$71.2m	\$74.1m	\$77.0m	\$79.9m

ASSUMPTIONS AND METHODOLOGY: Teacher's & 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, 1999 actuarial valuation of the fund. The data included 285,784 active members with an annual payroll of \$8.4 billion and 102,939 retired members in receipt of annual pensions totaling \$1.510 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 a 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.

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, 1999 actuarial valuation of the fund. The data included 112,431 active members with an annual payroll of \$3.12 billion and 28,562 retired members in receipt of annual pensions totaling \$318 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, LLC

FISCAL RESEARCH DIVISION 733-4910

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