

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

**BILL NUMBER:** House Bill 841

**SHORT TITLE:** Retention Incentive Program

**SPONSOR(S):** Representatives Preston & McLawhorn

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

**FUNDS AFFECTED:** General Fund, Highway Fund, and Receipts Funds

**BILL SUMMARY:** The bill creates a Teacher and State Employee Retention Incentive Program. This program allows a member of the retirement system to retire but continue to work for a period of time not to exceed five years. During this period of time, the retirement benefit is paid into a special account along with any cost-of-living increases granted, until the employee terminates employment. Then the retiree receives a lump sum payment of balance of special account and begins to receive retirement benefits on a monthly basis. Also, during this period, the retirement system continues to receive employer contributions but no employee contributions, and the employee earns no additional retirement service.

**EFFECTIVE DATE:** January 1, 2004

**ESTIMATED IMPACT ON STATE:** Retirement System Actuary: Buck Consultants estimates the cost to be .27% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
General Fund	\$20.3M	\$21.7M	\$23.1M	\$24.7M	\$26.4M
Highway Fund	\$ 1.0M	\$ 1.1M	\$ 1.1M	\$ 1.2M	\$ 1.3M
Receipt Funds	<u>\$ 6.5M</u>	<u>\$ 7.0M</u>	<u>\$ 7.5M</u>	<u>\$ 8.0M</u>	<u>\$ 8.5M</u>
TOTAL COST	\$27.8M	\$29.7M	\$31.7M	\$33.9M	\$36.2M

The General Assembly's actuary, Hartman & Associates, estimates the cost to be 0.19% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
General Fund	\$14.3M	\$15.3M	\$16.3M	\$17.4M	\$18.6M
Highway Fund	\$ 0.7M	\$ 0.7M	\$ 0.8M	\$ 0.9M	\$ 0.9M
Receipt Funds	<u>\$ 4.6M</u>	<u>\$ 4.9M</u>	<u>\$ 5.2M</u>	<u>\$ 5.6M</u>	<u>\$ 6.0M</u>
TOTAL COST	\$19.6M	\$20.9M	\$22.3M	\$23.8M	\$25.5M

**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, 2001, actuarial valuation of the fund. The data included 297,252 active members with an annual payroll of \$9.5 billion and 112,482 retired members in receipt of annual pensions totaling \$1.83 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.

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

**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:** James D. Johnson, Director, Fiscal Research Division

**DATE:** May 6, 2003



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