

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

**BILL NUMBER:** Senate Bill 53

**SHORT TITLE:** Law Officers' 25-Year Retirement

**SPONSOR(S):** Senator Reeves

**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:** Reduces the service requirement for unreduced retirement benefits from 30 years of service to 25 years of service as a law enforcement officer regardless of age. The bill also reduces the requirement of 30 years to 25 years in order to qualify to receive the special separation allowance of .85% of salary for each year of service.

**EFFECTIVE DATE:** July 1, 2003

**ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System**

Retirement System Actuary: Buck Consultants estimates the normal cost will increase by .01% and the accrued liability cost will increase by .03% for a total increase of .04% 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	\$3,008,400	\$3,212,069	\$3,429,526	\$3,661,705	\$3,909,602
Highway Fund	\$147,480	\$157,464	\$168,125	\$ 179,507	\$ 191,659
Receipt Funds	<u>\$969,080</u>	<u>\$1,034,687</u>	<u>\$1,104,735</u>	<u>\$1,179,526</u>	<u>\$1,259,379</u>
Total Retirement Cost	\$4,124,960	\$4,404,220	\$4,702,385	\$5,020,737	\$5,360,641
Separation Allowance	<u>\$883,500</u>	<u>\$1,021,000</u>	<u>\$1,182,000</u>	<u>\$1,417,500</u>	<u>\$1,675,000</u>
<b>TOTAL COST</b>	<b>\$5,008,460</b>	<b>\$5,425,220</b>	<b>\$5,884,385</b>	<b>\$6,438,237</b>	<b>\$7,035,641</b>

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase by .01% and the accrued liability cost will increase by .03% for a total increase of .04% of the payroll of all members of the Teachers' and State Employees' Retirement System.

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Total Retirement Cost	\$4,124,960	\$4,404,220	\$4,702,385	\$5,020,737	\$5,360,641
Separation Allowance	<u>\$1,046,812</u>	<u>\$2,102,266</u>	<u>\$2,304,181</u>	<u>\$2,532,125</u>	<u>\$2,796,631</u>
<b>TOTAL COST</b>	<b>\$5,171,772</b>	<b>\$6,506,486</b>	<b>\$7,006,566</b>	<b>\$7,552,862</b>	<b>\$8,157,272</b>

**ESTIMATED IMPACT ON LOCAL GOVERNMENTS:**

### **Local Governmental Employees' Retirement System**

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 5.27% of payroll to 5.92% for a net increase of .65% of the payroll of law enforcement officers. Buck Consultants estimates that the first year annual cost to pay the unfunded accrued liability will be \$5,825,000 based on a 15-year amortization period.

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Normal Cost Increase	\$4,368,000	\$4,189,872	\$4,460,119	\$4,747,796	\$5,054,029
Accrued Liability	<u>\$5,825,000</u>	<u>\$5,055,311</u>	<u>\$5,381,378</u>	<u>\$5,728,477</u>	<u>\$6,097,964</u>
Total Retirement Cost	\$10,193,000	\$9,245,183	\$9,841,497	\$10,476,273	\$11,151,993
Separation Allowance	<u>\$ 4,177,000</u>	<u>\$5,682,000</u>	<u>\$6,900,500</u>	<u>\$7,700,500</u>	<u>\$8,377,000</u>
<u>Total Local Funds</u>	\$14,370,000	\$16,617,409	\$18,631,516	\$20,285,794	\$21,879,010

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 5.27% of payroll to 5.84% for a net increase of 0.57% of the payroll of law enforcement officers. They also estimate that the annual cost to pay the unfunded accrued liability will increase 1.08%.

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Normal Cost Increase	\$3,830,400	\$4,089,718	\$4,366,592	\$4,662,210	\$4,977,842
Accrued Liability	<u>\$7,257,600</u>	<u>\$7,748,940</u>	<u>\$8,273,543</u>	<u>\$8,833,662</u>	<u>\$9,431,700</u>
Total Retirement Cost	\$11,088,000	\$11,838,658	\$12,640,135	\$13,495,872	\$14,409,542
Separation Allowance	<u>\$3,465,733</u>	<u>\$7,052,300</u>	<u>\$8,118,253</u>	<u>\$8,672,187</u>	<u>\$9,330,249</u>
Total Local Funds	\$14,553,733	\$18,890,958	\$20,758,388	\$22,168,509	\$23,739,791

### **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.

### **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, 2001, actuarial valuation of the fund. The data included 118,580 active members with an annual payroll of \$3.6 billion and 31,352 retired members in receipt of annual pensions totaling \$392.7 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 (919) 733-4910**

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

**DATE:** March 11, 2003



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