

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

## Legislative Actuarial Note



**BILL NUMBER:** House Bill 2487 (First Edition)  
**SHORT TITLE:** Mandatory Cost-of-Living Increases/Retirees.  
**SPONSOR(S):** Representatives Womble, Lucas, and B. Allen

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

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

**EFFECTIVE DATE:** July 1, 2006

**BILL SUMMARY:** Mandates a post-retirement cost-of-living increase to all retirees and future retirees of the Teachers' and State Employees' Retirement System, beginning July 1, 2006 and each year after, equal to the same percentage salary increase that is provided to active State employees.

### ESTIMATED IMPACT:

#### Teachers' and State Employees' Retirement System

Retirement System Actuary: Buck Consultants assumes an annual inflation rate of 3.75% in preparing the annual actuarial valuation for the Teachers' and State Employees' Retirement System. They use this same annual inflation rate of 3.75% in estimating the cost of this bill. They estimate the bill will increase the normal cost by 5.46% of the total payroll of all contributing members of the System. This increased normal cost will have to be paid each year the System operates in the future. They also estimate the unfunded accrued liability cost will be 26.09%, which will be funded over a frozen nine year liquidation period. The cost estimates are as follows:

<b>NORMAL COST</b>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$462.5M	\$482.0M	\$502.4M	\$523.6M	\$545.7M
Highway Fund	\$22.8M	\$23.8M	\$24.8M	\$25.9M	\$26.9M
Receipt Funds	<u>\$147.3M</u>	<u>\$153.6M</u>	<u>\$160.0M</u>	<u>\$166.8M</u>	<u>\$173.8M</u>
<b>COST</b>	<b>\$632.7M</b>	<b>\$659.4M</b>	<b>\$687.2M</b>	<b>\$716.2M</b>	<b>\$746.5M</b>

<b>UNFUNDED LIABILITY</b>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$2.210B	\$2.303B	\$2.400B	\$2.502B	\$2.607B
Highway Fund	\$109.1M	\$113.7M	\$118.5M	\$123.5M	\$128.8M
Receipt Funds	<u>\$704.1M</u>	<u>\$733.8M</u>	<u>\$764.8M</u>	<u>\$797.0M</u>	<u>\$830.7M</u>
<b>COST</b>	<b>\$3.023B</b>	<b>\$3.150B</b>	<b>\$3.284B</b>	<b>\$3.422B</b>	<b>\$3.567B</b>

<b>TOTAL COST</b>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$2.673B	\$2.785B	\$2.903B	\$3.025B	\$3.153B
Highway Fund	\$132M	\$137.5M	\$143.3M	\$149.4M	\$155.7M
Receipt Funds	<u>\$851.4M</u>	<u>\$887.4M</u>	<u>\$924.7M</u>	<u>\$963.8M</u>	<u>\$1.005B</u>
<b>GRAND TOTAL</b>	<b>\$3.656B</b>	<b>\$3.811B</b>	<b>\$3.971B</b>	<b>\$4.139B</b>	<b>\$4.313B</b>

**General Assembly Actuary: Hartman & Associates** used the assumed annual inflation rate of 3.75% in estimating the cost of this bill. They estimate the bill will increase the normal cost by 3.3% of the total payroll of all contributing members of the System. This increase normal cost will have to be paid each year the System operates in the future. They estimate the unfunded accrued liability cost will be 30.4%, which will be funded over a frozen nine year liquidation period. The cost estimates are as follows:

<b>NORMAL COST</b>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$279.5M	\$291.3M	\$303.6M	\$316.4M	\$329.8M
Highway Fund	\$13.8M	\$14.4M	\$15.0M	\$15.6M	\$16.3M
Receipt Funds	<u>\$89.1M</u>	<u>\$92.8M</u>	<u>\$96.7M</u>	<u>\$100.8M</u>	<u>\$105.1M</u>
<b>COST</b>	<b>\$382.4M</b>	<b>\$398.5M</b>	<b>\$415.4M</b>	<b>\$432.9M</b>	<b>\$451.2M</b>

<b>UNFUNDED LIABILITY</b>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$2.575B	\$2.684B	\$2.797B	\$2.915B	\$3.038B
Highway Fund	\$127.2M	\$132.5M	\$138.1M	\$143.9M	\$150.0M
Receipt Funds	<u>\$820.4M</u>	<u>\$855.0M</u>	<u>\$891.1M</u>	<u>\$928.7M</u>	<u>\$967.9M</u>
<b>COST</b>	<b>\$3.523B</b>	<b>\$3.671B</b>	<b>\$3.826B</b>	<b>\$3.988B</b>	<b>\$4.156B</b>

<b>TOTAL</b>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2001-11</u>
General Fund	\$2.855B	\$2.975B	\$3.101B	\$3.232B	\$3.368B
Highway Fund	\$141M	\$146.9M	\$153.1M	\$159.6M	\$166.3M
Receipt Funds	<u>\$909.5M</u>	<u>\$947.8M</u>	<u>\$987.8M</u>	<u>\$1.030B</u>	<u>\$1.073B</u>
<b>TOTAL COST</b>	<b>\$3.905B</b>	<b>\$4.070B</b>	<b>\$4.242B</b>	<b>\$4.421B</b>	<b>\$4.607B</b>

#### **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, 2004 actuarial valuation of the fund. The data included 311,612 active members with an annual payroll of \$10.4 billion and 128,577 retired members in receipt of annual pensions totaling \$2.3 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) annual salary increase rates from 5.45% to 12.08% which includes an inflation rate of 3.75% (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:** Buck Consultants  
Hartman & Associates, LLC

**TECHNICAL CONSIDERATIONS:** None

**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.

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Fiscal Research Division

**DATE:** June 1, 2006



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