

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1630 (Fourth Edition)

SHORT TITLE: 2005 Continuing Budget Authority/Revenue.

SPECIAL PROVISION: EXTEND THE SUNSET ON RETIRED TEACHERS RETURNING TO THE CLASSROOM

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Fund

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

EFFECTIVE DATE: June 30, 2005

PROVISION SUMMARY: Extends the law until June 30, 2007 that will allow a teacher to return to teach without reducing their retirement benefits.

ESTIMATED IMPACT:

Retirement System Actuary: Mellon estimates the cost to be 0.06% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$4.8M	\$5.1M	\$5.3M	\$5.6M	\$5.8M
Highway Fund	\$0.2M	\$0.3M	\$0.3M	\$0.3M	\$0.3M
Receipt Funds	\$1.6M	\$1.7M	\$1.7M	\$1.8M	\$1.9M
TOTAL COST	\$6.7M	\$7.0M	\$7.3M	\$7.7M	\$8.0M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.07% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$5.6M	\$5.9M	\$6.2M	\$6.5M	\$6.8M
Highway Fund	\$0.3M	\$0.3M	\$0.3M	\$0.3M	\$0.3M
Receipt Funds	\$1.8M	\$1.9M	\$2.0M	\$2.1M	\$2.2M
TOTAL COST	\$7.8M	\$8.1M	\$8.5M	\$8.9M	\$9.4M

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, 2003 actuarial valuation of the fund. The data included 303,768 active members with an annual payroll of \$10.1 billion and 123,077 retired members in receipt of annual pensions totaling \$2.1 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 - Mellon
General Assembly Actuary - Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: The estimated cost is determined by using the assumed rates of retirement versus the actual rates of retirement for members of this group.

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: June 27, 2005
Signed Copy Located in the NCGA Principal Clerk's Offices

