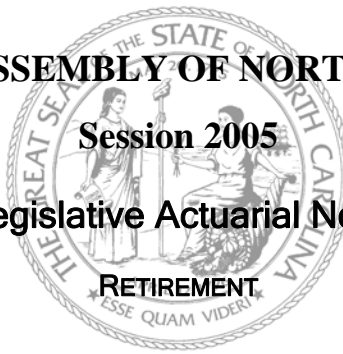


GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note



BILL NUMBER: Senate Bill 1474 (First Edition)

SHORT TITLE: Retirees Returning to Work.

SPONSOR(S): Senator Swindell

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

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

EFFECTIVE DATE: July 1, 2006

BILL SUMMARY: The 2005 Appropriations Act amended G.S. 135-1(20), the definition of retirement applicable to the Teachers' and State Employees' Retirement System (TSERS), to (1) preclude TSERS members from any type of state employment, whether on a part-time, temporary, substitute, or contractor basis, during the six months immediately following the member's effective date of retirement; and (2) provide that there may be no intent or agreement with the employer that the employee will return to service after the six-month period. The amendment was not to apply to participants in The University of North Carolina Phased Retirement Program until June 30, 2007. This act amends the 2005 changes to (1) delete the new restrictions for members who have reached normal retirement age (defined in GS 135-1 as 60 years or older with 25 or more years of service or 65 years or older with 5 or more years of service); and (2) modify the no-employment period for members who have not reached normal retirement age from six months to the sum of 25 days plus the longer of the number of weeks during each of the previous two years that there were no paid days of employment. The act also amends the 2005 changes with respect to the UNC phased retirement program to (1) make the exemption for the phased retirement program permanent; and (2) require UNC to limit the phased retirement program to retirees who have reached a normal retirement age (to be designated by UNC as either 59½ or 60 years). The act also authorizes the community colleges system to establish a similar phased retirement program for faculty that has reached normal retirement age.

GS 135-3(8)c. permits a retiree on an early or service retirement allowance to return to work for a TSERS employer on a part-time, interim, temporary, or contractual basis but the retirement allowance is suspended if the retiree earns the greater of \$20,000 or 50% of the retiree's salary during the 12 months before retirement. The suspension of the retirement allowance is known as the "salary cap." This act amends GS 135-3(8)c. to provide that the retiree's allowance is also suspended if the retiree's earnings in any month exceed 60% of the retirees average monthly compensation during the 12 months before retirement (excluding terminal payments). There is an exception for retirees whose employment is for a fixed period of no more than six months and is preceded by at least six months of continuous separation from active service.

GS 135-3(8)c. provides an exemption from the salary cap for teachers who have been retired and not employed by a public school in any capacity for at least six months and are then reemployed to teach in public school in a permanent capacity that exceeds 50% of the applicable work week. The exemption was set to sunset June 30, 2007; this act deletes the sunset, effective June 30, 2006. This act also amends GS 135-3(8)c. to reduce the no-employment period from six months to the sum of 25 days plus the longer of the number of weeks during each of the previous two years that there were no paid days of employment.

ESTIMATED IMPACT: Retirement System Actuary: Buck Consultants estimates the cost to be 0.24% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$20.3M	\$21.2M	\$22.1M	\$23.0M	\$23.0M
Highway Fund	\$1.0M	\$1.0M	\$1.1M	\$1.1M	\$1.2M
Receipt Funds	<u>\$6.5M</u>	<u>\$6.7M</u>	<u>\$7.0M</u>	<u>\$7.3M</u>	<u>\$7.6M</u>
TOTAL COST	\$27.8M	\$29.0M	\$30.2M	\$31.5M	\$32.8M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.28% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
General Fund	\$23.7M	\$24.7M	\$25.8M	\$26.9M	\$28.0M
Highway Fund	\$1.2M	\$1.2M	\$1.3M	\$1.3M	\$1.4M
Receipt Funds	<u>\$7.6M</u>	<u>\$7.9M</u>	<u>\$8.2M</u>	<u>\$8.6M</u>	<u>\$8.9M</u>
TOTAL COST	\$32.4M	\$33.8M	\$35.2M	\$36.7M	\$38.3M

There are available gains of 0.70% of payroll in the Teachers' and State Employees' Retirement System to fund this without increasing the contribution rate.

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.

PREPARED BY: Stanley Moore

APPROVED BY: Lynn Muchmore, Director
Fiscal Research Division

DATE: June 2, 2006



Signed Copy Located in the NCGA Principal Clerk's Offices