

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 156 (First Edition)

SHORT TITLE: DOT Retired Engineers.

SPONSOR(S): Senator Jenkins

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

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Under the present law, a retiree is allowed to earn in any calendar year or the 12 months following retirement, 50% of the salary earned during the 12 months of service prior to retirement or \$25,420, whichever is greater. The bill exempts earnings of retired engineers or engineering technicians reemployed by the Department of Transportation. Also, defines 'retired engineer' or 'retired engineering technician' as Teachers' & State Employees' Retirement System retiree who has been retired and has not been employed in any capacity by Department of Transportation for at least six months prior to reemployment and who was a satisfactory employee during last year of employment

EFFECTIVE DATE: July 1, 2005

ESTIMATED IMPACT:

Retirement System Actuary: Mellon estimates the cost to be 0.02% 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 | \$1.6M | \$1.7M | \$1.8M | \$1.9M | \$1.9M |
| Highway Fund | \$0.1M | \$0.1M | \$0.1M | \$0.1M | \$0.1M |
| Receipt Funds | <u>\$0.5M</u> | <u>\$0.6M</u> | <u>\$0.6M</u> | <u>\$0.6M</u> | <u>\$0.6M</u> |
| TOTAL COST | \$2.2M | \$2.3M | \$2.4M | \$2.6M | \$2.7M |

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.01% 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 | \$0.8M | \$0.8M | \$0.9M | \$0.9M | \$1.0M |
| Highway Fund | \$0.0M | \$0.0M | \$0.0M | \$0.0M | \$0.0M |
| Receipt Funds | <u>\$0.3M</u> | <u>\$0.3M</u> | <u>\$0.3M</u> | <u>\$0.3M</u> | <u>\$0.3M</u> |
| TOTAL COST | \$1.1M | \$1.2M | \$1.2M | \$1.3M | \$1.3M |

There are available gains of 0.47% 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, 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

FISCAL RESEARCH DIVISION 733-4910 The above information is provided in accordance with the North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives

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DATE: March 23, 2005