

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 1114 (First Edition)

SHORT TITLE: Law Officers' 25-Year Retirement.

SPONSOR(S): Representatives Clary, McLawhorn, Glazier, and Moore

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds to fund the Teachers' and State Employees' Retirement System and Local Funds to fund the Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, and Local Governmental Employees' Retirement System and the Special Separation Allowance for both state and local law enforcement officer.

EFFECTIVE DATE: January 1, 2008

BILL SUMMARY: The bill reduces the service requirement for receiving an unreduced retirement benefits from 30 years of service at any age to 25 years of service at any age as a law enforcement officer. The bill also makes several changes to the special separation allowance. The requirement of 30 years of service is reduced to 25 years in order to qualify to receive the special separation allowance of .85% of salary for each year of service. The date in the month in which the payment is to be made to the retiree is changed to the same date that the retiree's retirement benefit is payable. Usually retirement benefits are paid on the 25th day of each month. The bill changes the length that benefits are to be paid to any retired officer until the time they become eligible for unreduced Social Security benefits. Under the present law, benefits are paid until age 62. The bill also allows the benefits to continue during reemployment until such time that the retirement benefit is suspended.

The bill instructs the Department of State Treasurer to develop and implement a plan to collect funds from department, agencies and institutions and to administer the payment of benefits to the retired officers. Presently, the State and each unit of local government pays the separation allowance in the form of salary to the retiree. So, in order to create a trust fund and properly fund it, the State and each local governmental unit that employs law enforcement officers would be required to contribute a percentage of the payroll of law enforcement officers. Future retirees would then be paid from this fund rather than the State and each unit of local government being responsible for the payment.

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

The Retirement System actuary, Buck Consultants, estimates the cost will increase by .04% of the payroll of all members of the Teachers' and State Employees' Retirement System. The estimated

amount of the separation allowance is shown on a pay-as-you-go basis since there are some questions as to how the fund is to be set up and the funding of future benefits.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-2011</u>	<u>2011-2012</u>
General Fund	\$1.9M	\$3.9M	\$4.0M	\$4.2M	\$4.3M
Highway Fund	\$ 0.1M	\$ 0.2M	\$ 0.2M	\$ 0.2M	\$ 0.2M
Receipt Funds	<u>\$ 0.6M</u>	<u>\$ 1.2M</u>	<u>\$ 1.3M</u>	<u>\$ 1.3M</u>	<u>\$ 1.4M</u>
Retirement Cost	\$2.5M	\$5.2M	\$5.5M	\$5.7M	\$5.9M
Separation Allow.	<u>\$0.4M</u>	<u>\$1.0M</u>	<u>\$1.4M</u>	<u>\$1.8M</u>	<u>\$2.2M</u>
TOTAL COST	\$2.9M	\$6.2M	\$6.8M	\$7.5M	\$8.1M

The General Assembly's actuary, Hartman & Associates, estimates the cost will increase by .04% of the payroll of all members of the Teachers' and State Employees' Retirement System. The estimated amount of the separation allowance is shown on a pay-as-you-go basis since there are some questions as to how the fund is to be set up and the funding of future benefits.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-2011</u>	<u>2011-2012</u>
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Retirement Cost	\$2.5M	\$5.2M	\$5.5M	\$5.7M	\$5.9M
Separation Allow.	<u>\$1.5M</u>	<u>\$3.3M</u>	<u>\$3.9M</u>	<u>\$4.6M</u>	<u>\$5.1M</u>
TOTAL COST	\$4.0M	\$8.5M	\$9.4M	\$10.3M	\$11.0M

There are available gains of 0.34% of payroll in the Teachers' and State Employees' Retirement System to fund this benefit enhancement.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Local Governmental Employees' Retirement System

The Retirement System's actuary, Buck Consultants, estimates the normal cost will increase from 5.27% of payroll to 5.67% for a net increase of 0.40% of the payroll of law enforcement officers. Buck estimates the unfunded accrued liability cost will be 0.97% of the payroll of law enforcement officers based on a 24-year amortization period. The estimated payroll is \$820,000,000 for local law enforcement officers.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-2011</u>	<u>2011-2012</u>
Normal Cost	\$1.6M	\$3.4M	\$3.6M	\$3.8M	\$4.0M
Unfunded Liability	<u>\$4.0M</u>	<u>\$8.3M</u>	<u>\$8.7M</u>	<u>\$9.1M</u>	<u>\$9.6M</u>
Retirement Cost	\$5.6M	\$11.8M	\$12.4M	\$13.0M	\$13.6M
Separation Allow.	<u>\$1.9M</u>	<u>\$ 4.5M</u>	<u>\$ 6.4M</u>	<u>\$ 8.5M</u>	<u>\$10.4M</u>
TOTAL COST	\$7.5M	\$16.3M	\$18.7M	\$21.4M	\$24.0M

The General Assembly’s actuary, Hartman & Associates, estimates the normal cost will increase from 5.27% of payroll to 5.73% for a net increase of 0.46% of the payroll of law enforcement officers. Hartman estimates the unfunded accrued liability cost will be 1.02% of the payroll of law enforcement officers based on a 24-year amortization period. They estimate the cost to fund future benefits to be 8.5% to 10% of the payroll for local law enforcement officers.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-2011</u>	<u>2011-2012</u>
Normal Cost	\$1.9M	\$4.0M	\$4.1M	\$4.4M	\$4.6M
Unfunded Liability	<u>\$4.2M</u>	<u>\$8.8M</u>	<u>\$9.2M</u>	<u>\$9.6M</u>	<u>\$10.1M</u>
Retirement Cost	\$6.1M	\$12.7M	\$13.3M	\$14.0M	\$14.7M
Separation Allow.	<u>\$4.3M</u>	<u>\$ 9.1M</u>	<u>\$10.4M</u>	<u>\$12.4M</u>	<u>\$14.6M</u>
TOTAL COST	\$10.4M	\$21.8M	\$23.7M	\$26.4M	\$29.3M

There are available gains of 0.33% of payroll in the Local Governmental Employees' Retirement System to help fund this benefit enhancement.

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, 2005 actuarial valuation of the fund. The data included 321,513 active members with an annual payroll of \$11 billion, 134,719 retired members in receipt of annual pensions totaling \$2.5 billion and actuarial value of assets equal to \$49.7 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, 2005 actuarial valuation of the fund. The data included 123,015 active members with an annual payroll of \$4.2 billion, 38,448 retired members in receipt of annual pensions totaling \$575 million and actuarial value of assets equal to \$14.4 billion. 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: 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: April 25, 2007



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