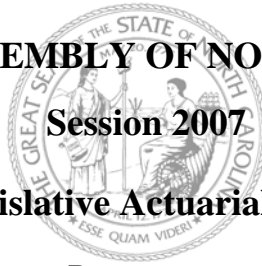


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 2436 (Seventh Edition)

SHORT TITLE: Modify Appropriations Act of 2007.

SECTION 26.23 PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE JUDICIAL RETIREMENT SYSTEM AND THE LEGISLATIVE RETIREMENT SYSTEM.

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System, and General Fund for the Consolidated Judicial Retirement System and Legislative Retirement System.

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System and Legislative Retirement System.

EFFECTIVE DATE: July 1, 2008

BILL SUMMARY: The bill grants a 2.2% cost of living adjustment to the retirees of the Teachers and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System effective July 1, 2008

ESTIMATED IMPACT ON THE STATE:

2.2% COLA for retirees of the Teachers' and State Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 0.73% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$71.2M	\$74.3M	\$77.5M	\$80.8M	\$84.3M
Highway Fund	\$3.4M	\$3.6M	\$3.7M	\$3.9M	\$4.1M
Receipt Funds	<u>\$25.6M</u>	<u>\$26.7M</u>	<u>\$27.9M</u>	<u>\$29.1M</u>	<u>\$30.3M</u>
TOTAL COST	\$100.3M	\$104.6M	\$109.1M	\$113.8M	\$118.7M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.68% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$66.3M	\$69.2M	\$72.2M	\$75.3M	\$78.5M
Highway Fund	\$3.2M	\$3.3M	\$3.5M	\$3.6M	\$3.8M
Receipt Funds	<u>\$23.9M</u>	<u>\$24.9M</u>	<u>\$26.0M</u>	<u>\$27.1M</u>	<u>\$28.2M</u>
TOTAL COST	\$93.4M	\$97.4M	\$101.6M	\$106.0M	\$110.5M

The above cost would be reduced by the gains available within the system equal to 0.42% of payroll in the Teachers' and State Employees' Retirement System. Contributions to the Retirement System should be as follows for future years.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$30.2M	\$31.5M	\$32.9M	\$34.3M	\$35.8M
Highway Fund	\$1.5M	\$1.5M	\$1.6M	\$1.7M	\$1.7M
Receipt Funds	<u>\$10.9M</u>	<u>\$11.3M</u>	<u>\$11.8M</u>	<u>\$12.3M</u>	<u>\$12.9M</u>
TOTAL COST	\$42.6M	\$44.4M	\$46.3M	\$48.3M	\$50.4M

2.2% COLA for retirees of the Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 1.14% of the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$695,400	\$710,977	\$726,903	\$743,185	\$759,833

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.12% the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$683,200	\$698,504	\$714,150	\$730,147	\$746,502

There are available gains in the Consolidated Judicial Retirement System to fund this increase.

2.2% COLA for retirees of the Legislative Retirement System

Retirement System Actuary: Charles W. Dunn estimates the cost to be 1.34% of the payroll of all members of the Legislative Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$48,508	\$48,508	\$48,508	\$48,508	\$48,508

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.30% the payroll of all members of the Legislative Retirement System.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund	\$47,060	\$47,060	\$47,060	\$47,060	\$47,060

SECTION 26.25 INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND

FUNDS AFFECTED: General Fund

SYSTEM OR PROGRAM AFFECTED: Firemen and Rescue Squad Workers' Pension Fund

EFFECTIVE DATE: July 1, 2008

BILL SUMMARY: Increases the monthly benefit for retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$167 to \$170.

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants and the General Assembly's actuary, Hartman & Associates, LLC, estimates the cost to be as follows:

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>20012-13</u>
Benefit Increase	\$1,027,851	\$1,027,851	\$1,027,851	\$1,027,851	\$1,027,851

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, 2006 actuarial valuation of the fund. The data included 330,117 active members with an annual payroll of \$11.7 billion, 140,292 retired members in receipt of annual pensions totaling \$2.7 billion and actuarial value of assets equal to \$52.4 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) average salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are not adjusted for male teachers, set forward one year for female teachers, set forward two years for general employees and law enforcement officers and set forward two years for the beneficiaries of deceased member (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a frozen 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.

Consolidated Judicial 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, 2006 actuarial valuation of the fund. The data included 512 active members with an annual payroll of \$53.3 million, 460 retired members in receipt of annual pensions totaling \$23.9 million and actuarial value of assets equal to \$406 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables. Tables are set forward two years for post-retirement period and set back one year for pre-retirement period. Special mortality tables are used for period after disability retirement and (d) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. The method used to determine the contribution rate is the projected unit credit method with 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.

Legislative 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, 2006 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.7 million, 245 retired members in receipt of annual pensions totaling \$1.7 million and actuarial value of assets equal to \$29.6 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality Tables for deaths in service and after retirement and (c) 100% vesting

after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with service prorata. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Firemen and Rescue Squad Workers' Pension Fund. The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2007 actuarial valuation of the fund. The data included 34,948 active members and 10,170 retired members in receipt of annual pensions totaling \$20.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1994 Group Annuity Mortality Tables for deaths before and after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the projected benefit method with entry age normal cost and open-end 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
Charles W. Dunn, Consulting Actuary

TECHNICAL CONSIDERATIONS: None

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DATE: June 19, 2008



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