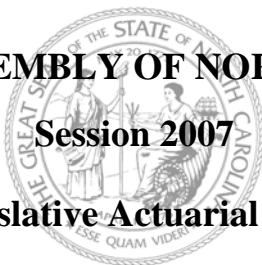


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 784 (First Edition)
SHORT TITLE: Durham/LEOs Purchase of Retirement Service.
SPONSOR(S): Senator Atwater

FUNDS AFFECTED: Local Funds

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

EFFECTIVE DATE: When it becomes law

BILL SUMMARY: Enacts new GS 128-26 (w), which provides that City of Durham and Durham County law enforcement officers who have received either intermediate or advanced law enforcement certification and who have completed 10 years of membership service in the Local Governmental Employees' Retirement System are eligible to purchase up to two or four years, respectively, of creditable service as a law enforcement officer.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS Both the Retirement System Actuary, Buck Consultants, and the General Assembly Actuary, Hartman & Associates, agree that this bill will not increase the unfunded actuarial accrued liability or the contribution rate to the Local Governmental Employees' Retirement System.

There is a cost to Durham County or the City of Durham in the form of Special Separation Allowance as a result of the law enforcement officers who purchase their service being eligible to retire two or four years before the present law will allow.

Retirement System Actuary: Buck Consultants based their cost assuming that all 554 law enforcement officers purchased four years of service when eligible:

Table with 6 columns: Separation Allow., 2007-08, 2008-09, 2009-10, 2010-11, 2011-12. Values range from \$288,000 to \$876,000.

General Assembly's Actuary: Hartman & Associates based their cost assuming that all 554 law enforcement officers purchased four years of service when eligible:

Table with 6 columns: Separation Allow., 2007-08, 2008-09, 2009-10, 2010-11, 2011-12. Values range from \$359,250 to \$824,050.

ASSUMPTIONS AND METHODOLOGY: 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.

The actuaries used employee data supplied to them by the Retirement Systems Division. The actuaries used the actuarial assumptions used to prepare the December 31, 2005 actuarial valuation of the Local Governmental Employees' Retirement System in estimating the cost. Buck's estimate is based on 554 law enforcement officers with an average age of 39 and average service of 12 years. Hartman's estimate is based on 573 records.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: Passage of this bill will be the first time in the history of the Local Governmental Employees' Retirement System that a member will be eligible to purchase service that the member did not work. The member was an employee and earned membership service while in the process of receiving advanced law enforcement certification. Allowing a member to purchase service that they did not work will then reduce the years of service the member actually has to work in order to retire on an unreduced retirement benefit.

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: May 14, 2007



Signed Copy Located in the NCGA Principal Clerk's Offices