

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

## Legislative Actuarial Note

### RETIREMENT

**BILL NUMBER:** House Bill 200 (Fifth Edition)

**SHORT TITLE:** Appropriations Act of 2011.

**SPONSOR(S):**

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

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

**EFFECTIVE DATE:** July 1, 2011

**BILL SUMMARY: Section 29.24.** The University System administers a Phased Retirement Program in which instructors are allowed to retire from whichever retirement program that they are in (Teachers' and State Employee's Retirement System or the Optional Retirement Program) and continue to teach on a part time basis without the required six month break in service. There are presently 123 retired members participating in the Program and they are allowed to participate for a maximum of 5 years. The present law allows participation in this Program to return without a break in service until the earlier of August 31, 2013 or 12 months after the Internal Revenue Service issues its final phased retirement regulations. This section will remove any deadlines or dates and makes permanent the exemption for allowing members to retire and be reemployed in the Phased Retirement Program without any break in service.

**ESTIMATED IMPACT ON STATE: Section 29.24.** Buck Consultants, the Retirement Systems' actuary estimates the cost to be 0.01% of the payroll for members of the Teachers' and State Employees' Retirement System.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General Fund	\$988,300	\$1,038,506	\$1,091,262	\$1,146,698	\$1,204,950
Highway Fund	\$44,500	\$46,761	\$49,136	\$51,632	\$54,255
Receipt Funds	<u>\$380,000</u>	<u>\$399,304</u>	<u>\$419,589</u>	<u>\$440,904</u>	<u>\$463,302</u>
	<b>\$1,412,800</b>	<b>\$1,484,570</b>	<b>\$1,559,986</b>	<b>\$1,639,234</b>	<b>\$1,722,507</b>

Hartman & Associates, the General Assembly's actuary, does not expect this section to have a material impact on the Teachers' and State Employees' Retirement System due to the small number of participants in the Phased Retirement Program.

**BILL SUMMARY: Section 29.25.** Under the present law, a retiring member can render no service during the six months immediately following the date of retirement. This section changes the definition of “Retirement” to provide that retirement becomes effective in any month during which the member renders no service during the qualifying period and defines the qualifying period as; (1) three months for members who retire with their last 12 months of service as employees of UNC or any constituent institution and return to service as employees of UNC or any constituent institution, and as; (2) six months for all other teachers and State employees.

**ESTIMATED IMPACT ON STATE: Section 29.25.** Buck Consultants, the Retirement Systems’ actuary estimates the cost to be 0.04% of the payroll for members of the Teachers’ and State Employees’ Retirement System.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General Fund	\$3,953,200	\$4,154,023	\$4,365,047	\$4,586,791	\$4,819,800
Highway Fund	\$178,000	\$187,042	\$196,544	\$206,529	\$217,020
Receipt Funds	<u>\$1,520,000</u>	<u>\$1,597,216</u>	<u>\$1,678,355</u>	<u>\$1,763,615</u>	<u>\$1,853,207</u>
	<b>\$5,651,200</b>	<b>\$5,938,281</b>	<b>\$6,239,946</b>	<b>\$6,556,935</b>	<b>\$6,890,027</b>

Hartman & Associates, the General Assembly’s actuary, estimates the cost to be 0.03% of the payroll for members of the Teachers’ and State Employees’ Retirement System.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General Fund	\$2,964,900	\$3,115,517	\$3,273,785	\$3,440,093	\$3,614,850
Highway Fund	\$133,500	\$140,282	\$147,408	\$154,896	\$162,765
Receipt Funds	<u>\$1,140,000</u>	<u>\$1,197,912</u>	<u>\$1,258,766</u>	<u>\$1,322,711</u>	<u>\$1,389,905</u>
	<b>\$4,238,400</b>	<b>\$4,453,711</b>	<b>\$4,679,959</b>	<b>\$4,917,701</b>	<b>\$5,167,520</b>

**BILL SUMMARY: Section 29.26.** Under the present law, any member of the Optional Retirement Program must have worked for five years in order to be entitled to any contributions that UNC has made on their behalf. This section changes the law so that any participant in the Optional Retirement Program can use membership service under any combination with either the Teachers’ and State Employees’ Retirement System, the Local Governmental Employees’ Retirement System, the Consolidated Judicial Retirement System, or the Optional Retirement Program in order to reach the five year vesting requirement in order to not forfeit any contributions made on their behalf from UNC.

**ESTIMATED IMPACT ON STATE: Section 29.26.** The amount of UNC Employer Contributions for former employee that were in the Optional Retirement Program that did not retire or begin employment with an employer lacking a retirement program with the same underwriter, for the last three years is as follows: 2008-\$2.8 million, 2009-\$1.3 million, and 2009-\$4.8 million. These amounts were transferred to the Teachers’ and State Employees’ Retirement System.

Both actuaries agree that the amount that is forfeited by members who fail to vest (5 Years) in the Optional Retirement Program will decrease if the members of the Optional Retirement Program

can include service in these various retirement systems to use for vesting in the Optional Retirement Program but the total number that has had or will have dual membership is unavailable.

**BILL SUMMARY: Section 29.27** This section allows employees of the University of North Carolina Health Care System to have a choice of whether to participate in the Optional Retirement Program or the Teachers' and State Employees' Retirement System, subject to rules adopted by the UNC Board of Governors.

**ESTIMATED IMPACT ON STATE: Section 29.27** Buck Consultants, the Retirement Systems' actuary estimates the cost to be 0.08% of the payroll for members of the Teachers' and State Employees' Retirement System assuming that all 6,574 employees, with an annual payroll of about \$375 million during 2010, elect to join the Optional Retirement Program.

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General Fund	\$7,906,400	\$8,308,045	\$8,730,094	\$9,173,583	\$9,639,601
Highway Fund	\$356,000	\$374,085	\$393,088	\$413,057	\$434,040
Receipt Funds	<u>\$3,040,000</u>	<u>\$3,194,432</u>	<u>\$3,356,709</u>	<u>\$3,527,230</u>	<u>\$3,706,413</u>
	<b>\$11,302,400</b>	<b>\$11,876,562</b>	<b>\$12,479,891</b>	<b>\$13,113,870</b>	<b>\$13,780,054</b>

Hartman & Associates, the General Assembly's actuary, does not expect this section to have a material impact on the Teachers' and State Employees' Retirement System. He estimates the cost in the Teachers' and State Employees' Retirement System will increase if the younger employees select the Optional Retirement Program.

**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, 2009 actuarial valuation of the System. The data included 316,647 active members with an annual payroll of \$13.3 billion, 156,791 retired members in receipt of annual pensions totaling \$3.2 billion and actuarial value of assets equal to \$55.8 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of nine years. Detailed information concerning these assumptions and methods are 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:** May 26, 2011



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