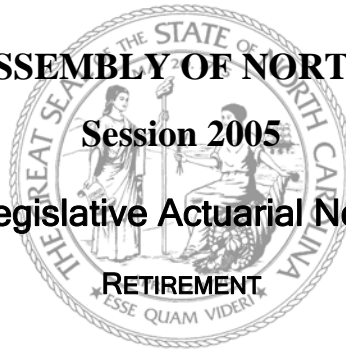


# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

## Legislative Actuarial Note



**BILL NUMBER:** Senate Bill 1738 (Second Edition)

**SHORT TITLE:** Long-Term Disability Amendment.

**SPONSOR(S):** Senator Dalton

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**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Funds

**SYSTEM OR PROGRAM AFFECTED:** Disability Income Plan

**EFFECTIVE DATE:** Part of bill is effective August 1, 2006 and part is effective July 1, 2002.

**BILL SUMMARY:** Creates the definition of “Trial Rehabilitation” during the long-term benefit period to allow a person to return to service in any capacity at a salary equal to or greater than the salary that the previous long-term benefit is based. During the long-term period, the person may return to work for trial rehabilitation for a period not greater than 36 months without the loss of long-term benefits, if they are not capable of remaining in service. If they complete 36 months and later become disabled, they are subject to the waiting period and the short-term benefit period before they are eligible for long-term benefits.

In order to be eligible to receive long-term disability benefits, the medical board must certify that such member is mentally or physically incapacitated for the further performance of their duties and that such incapacity was incurred at the time of active employment and that such incapacity is likely to be permanent. The present criteria is scheduled to change effective August 1, 2006 to a more restrictive criteria in order to receive long-term disability benefits. The bill extends the effective date for the change from August 1, 2006 to August 1, 2007.

**ESTIMATED IMPACT ON STATE:** Both, Buck Consultants, the Disability Income Plan’s actuary, and Hartman & Associates, the General Assembly’s actuary, agree that the cost to allow for a trial rehabilitation period would be negligible. Both actuarial agree that the changes in the effective date from August 1, 2006 to August 1, 2007 could result in a loss of savings that would occur

**ASSUMPTIONS AND METHODOLOGY: Disability Income Plan of North Carolina**

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, 2004 actuarial valuation of the Plan. The data included 322,933 active members with an annual payroll of \$11.2 billion and 5,246 disabled members in receipt of annual long term benefits totaling \$47.6 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) assumed rates of

disability and termination are based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transactions Volume XXXIX, 1987, adjusted by a factor of 0.80, (c) across-the-board salary increases of 5.75%, (d) Social Security disability benefits are assumed to increase 3.75% per year and (e) rates of approval for Social Security benefits prior to completion of four years of disability is 75%. Claims cost for LTD benefits are calculated using the one-year term cost method. 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.

**PREPARED BY:** Stanley Moore

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division



**DATE:** June 9, 2006

**Signed Copy Located in the NCGA Principal Clerk's Offices**