

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1414 (First Edition)

SHORT TITLE: 2004 Appropriations Act - 1.

SPONSOR(S): Representatives Crawford and Sherrill

BILL SUMMARY:

2004 APPROPRIATIONS ACT-1. TO MODIFY THE CURRENT OPERATIONS AND CAPITAL APPROPRIATIONS ACT OF 2003 AND TO MAKE OTHER CHANGES IN THE BUDGET OPERATIONS OF THE STATE.

SPECIAL PROVISION: PROVIDES INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM AND THE LEGISLATIVE RETIREMENT SYSTEM.

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

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Provides a post-retirement increase of 1.32 in the benefits of retirees of the Teachers' and State Employees' Retirement System and the Legislative Retirement System and 0.3% in the benefits of retirees of the Consolidated Judicial Retirement System.

EFFECTIVE DATE: July 1, 2004

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

Retirement System Actuary: Mellon estimates the cost to be 0.41% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$31.4M	\$33.2M	\$35.1M	\$37.1M	\$39.2M
Highway Fund	\$ 1.6M	\$ 1.7M	\$ 1.8M	\$ 1.9M	\$ 2.0M
Receipt Funds	<u>\$ 10.8M</u>	<u>\$ 11.4M</u>	<u>\$ 12.0M</u>	<u>\$ 12.7M</u>	<u>\$ 13.4M</u>
TOTAL COST	\$ 43.7M	\$ 46.2M	\$ 48.8M	\$ 51.6M	\$ 54.6M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.38% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$29.1M	\$30.7M	\$32.5M	\$34.4M	\$36.3M

Highway Fund	\$ 1.5M	\$ 1.5M	\$ 1.6M	\$ 1.7M	\$ 1.8M
Receipt Funds	<u>\$10.0M</u>	<u>\$ 10.5M</u>	<u>\$11.1M</u>	<u>\$11.8M</u>	<u>\$12.5M</u>
TOTAL COST	\$40.5M	\$42.8M	\$45.3M	\$47.9M	\$50.6M

There are actuarial gains in the Teachers' and State Employees' Retirement System equal to .41% of payroll so this increase will not require an appropriation.

Consolidated Judicial Retirement System: Both the Retirement System actuary, Mellon and the General Assembly's actuary, Hartman & Associates estimate the cost to be 0.14% of the payroll of all members of the Consolidated Judicial Retirement System.

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$70,840	\$75,402	\$80,258	\$85,427M	\$90,928

There are actuarial gains in Consolidated Judicial Retirement System equal to .14% of payroll so this increase will not require an appropriation.

Legislative Retirement System: Both the Retirement System actuary, Charles Dunn, and the General Assembly's actuary, Hartman & Associates, estimate the cost to be 0.63% of the payroll of all members of the Legislative Retirement System.

	2004-05	2005-06	2006-07	2007-08	2008-09
General Fund	\$22,680	\$22,680	\$22,680	\$22,680	\$22,680

There are actuarial gains in Legislative Retirement System so this increase will not require an appropriation.

SPECIAL PROVISION: INCREASE FIRE AND RESCUE PENSION BENEFITS

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

FUNDS AFFECTED: General Fund

BILL SUMMARY: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$158 to \$160.

EFFECTIVE DATE: July 1, 2004

ESTIMATED IMPACT ON STATE:

System Actuary: Mellon

	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	2004-05	2005-06	2006-07	2007-08	2008-09
Benefit Increase	\$590,426	\$590,426	\$590,426	\$590,426	\$590,426

General Assembly Actuary: Hartman & Associates

	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07	<u>FY</u> 2007-08	<u>FY</u> 2008-09
Benefit Increase	\$590,676	\$590,676	\$590,676	\$590,676	\$590,676

There are actuarial gains within the Fund of \$220,395 so the actual appropriation would be \$370,000 to fund this increase.

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, 2002 actuarial valuation of the fund. The data included 296,377 active members with an annual payroll of \$9.7 billion and 118,129 retired members in receipt of annual pensions totaling \$2 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.

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, 2002 actuarial valuation of the fund. The data included 489 active members with an annual payroll of \$48.4 million and 401 retired members in receipt of annual pensions totaling \$17.8 million. 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 Table for deaths after 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 benefit method; however, 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, 2002 actuarial valuation of the fund. The data included 169 active members with an annual payroll of \$3.6 million and 205 retired members in receipt of annual pensions totaling \$1.2 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 prorate. 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's 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, 2003, actuarial valuation of the fund. The data included 32,166 active members and 8,903 retired members in receipt of annual pensions totaling \$16.9 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1974 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age 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.

SOURCES OF DATA: System Actuary - Mellon.
General Assembly Actuary - Hartman & Associates, LLC
Legislative System Actuary – Charles W. Dunn

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DATE: June 4, 2004



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