

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 129 (First Edition)

SHORT TITLE: State and Local Retirement COLAs.

SPONSOR(S): Representative Wright

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

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System

EFFECTIVE DATE: July 1, 2005

BILL SUMMARY: Provides a post-retirement increase of 1.46% in the benefits of retirees of the Teachers' and State Employees' Retirement System and a post-retirement increase of 4% in the benefits of retirees of the Local Governmental Employees' Retirement System.

ESTIMATED IMPACT: Teachers' and State Employees' Retirement System

Retirement System Actuary: Mellon estimates the cost to be 0.47% of the payroll of all members of the Teachers' and State Employees' Retirement System.

Table with 6 columns (2005-06 to 2009-10) and 5 rows (General Fund, Highway Fund, Receipt Funds, TOTAL COST). Values range from \$1.9M to \$62.8M.

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.44% of the payroll of all members of the Teachers' and State Employees' Retirement System.

Table with 6 columns (2005-06 to 2009-10) and 5 rows (General Fund, Highway Fund, Receipt Funds, TOTAL COST). Values range from \$1.8M to \$58.8M.

There are available gains of 0.47% of payroll in the Teachers' and State Employees' Retirement System to fund this cost-of-living adjustment, without increasing the contribution rate.

**ESTIMATED IMPACT: Local Governmental Employees' Retirement System**

Retirement System Actuary: Mellon estimates the cost to be 0.52% of the payroll of all members of the Local Governmental Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<b>Local Funds</b>	<b>\$22.2M</b>	<b>\$23.5M</b>	<b>\$24.9M</b>	<b>\$26.4M</b>	<b>\$27.9M</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.48% of the payroll of all members of the Local Governmental Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
<b>Local Funds</b>	<b>\$20.5M</b>	<b>\$21.7M</b>	<b>\$23.0M</b>	<b>\$24.3M</b>	<b>\$25.8M</b>

**There are available gains of 0.52% of payroll in the Local Governmental Employees' Retirement System to fund this cost-of-living adjustment without increasing the contribution rates of each employer.**

**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, 2003 actuarial valuation of the fund. The data included 303,768 active members with an annual payroll of \$10.1 billion and 123,077 retired members in receipt of annual pensions totaling \$2.1 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.

**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, 2003 actuarial valuation of the fund. The data included 119,755 active members with an annual payroll of \$3.9 billion and 34,861 retired members in receipt of annual pensions totaling \$487.5 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 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.

**SOURCES OF DATA:** System Actuary - Mellon  
General Assembly Actuary - 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:** James D. Johnson, Director  
Fiscal Research Division



**DATE:** February 14, 2005

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