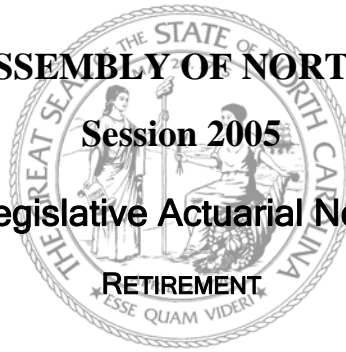


GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note



BILL NUMBER: House Bill 853 (Third Edition)

SHORT TITLE: Optional Retirement Program Changes.

SPONSOR(S):

FUNDS AFFECTED: General Fund and Receipts Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' & State Employees' Retirement System and the University of North Carolina Optional Retirement Program.

EFFECTIVE DATE: Section 1 of the bill relating to the purchase of time while in the Optional Retirement Program as creditable service in the Teachers' & State Employees' Retirement System is effective when it becomes law. Sections 2 & 3 of the bill that relate to the employees of the School of Science and Math being eligible to participate in the Optional Retirement Program are effective July 1, 2007.

BILL SUMMARY: The bill will allow any member of the Teachers' & State Employees' Retirement System to purchase service for periods of employment while they were participating in the Optional Retirement Plan. In order to qualify, a member must have five years of creditable service in the Teachers' & State Employees' Retirement System and must not be eligible to receive any retirement benefits from the Optional Retirement Plan. The member will pay the "full actuarial cost" of the additional service credits, which is the full liability that the service will put upon the System.

The bill also allows the employees who are appointed by the Board of Governors and the faculty of the School of Science and Math, who are employed as of July 1, 2007 or after, to make an irrevocable election to participate in the Teachers' & State Employees' Retirement System or the University of North Carolina Optional Retirement Program. The total number of employees affected by this change is about 95 to 100.

ESTIMATED IMPACT ON STATE: The Retirement System's Actuary, Buck Consultants, and the General Assembly Actuary, Hartman & Associates, agree that the cost will be negligible to allow those certain employees of the School of Science and Math who are employed as of July 1, 2007 or after to make an irrevocable election to participate in the Teachers' & State Employees' Retirement System or the University of North Carolina Optional Retirement Program. There is no cost for the section of the bill that allows a member of the Teachers' & State Employees' Retirement System to purchase the years and months of service while a member of 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, 2004 actuarial valuation of the fund. The data included 311,612 active members with an annual payroll of \$10.4 billion and 128,577 retired members in receipt of annual pensions totaling \$2.3 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) annual salary increase rates from 5.45% to 12.08% which includes an inflation rate of 3.75% (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.

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: July 12, 2006



Signed Copy Located in the NCGA Principal Clerk's Offices