

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 975 (First Edition)

SHORT TITLE: Retirement System COLAs.

SPONSOR(S): Senator Dannelly

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

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

EFFECTIVE DATE: July 1, 2005

BILL SUMMARY: Provides a post-retirement increase of 3.3% in the benefits of retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System and the Local Governmental Employees' Retirement System.

ESTIMATED IMPACT: Teachers' and State Employees' Retirement System

Retirement System Actuary: Mellon estimates the cost to be 1.06% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$85.5M	\$89.5M	\$93.8M	\$98.3M	\$102.9M
Highway Fund	\$ 4.3M	\$ 4.5M	\$ 4.7M	\$ 4.9M	\$ 5.1M
Receipt Funds	<u>\$28.0M</u>	<u>\$29.3M</u>	<u>\$30.7M</u>	<u>\$32.2M</u>	<u>\$ 33.7M</u>
<b>TOTAL COST</b>	<b>\$117.7M</b>	<b>\$123.3M</b>	<b>\$129.2M</b>	<b>\$135.3M</b>	<b>\$141.7M</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.99% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$79.8M	\$83.6M	\$87.6M	\$91.8M	\$96.1M
Highway Fund	\$ 4.0M	\$ 4.2M	\$ 4.4M	\$ 4.6M	\$ 4.8M
Receipt Funds	<u>\$26.1M</u>	<u>\$27.4M</u>	<u>\$28.7M</u>	<u>\$30.0M</u>	<u>\$31.5M</u>
<b>TOTAL COST</b>	<b>\$109.9M</b>	<b>\$115.1M</b>	<b>\$120.6M</b>	<b>\$126.4M</b>	<b>\$132.4M</b>

There are available gains of 0.47% of payroll in the Teachers' and State Employees' Retirement System so a direct appropriation to the retirement system would be necessary to pay the additional cost. The appropriation needed is as follows:

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$47.6M	\$49.8M	\$52.2M	\$54.7M	\$57.3M
Highway Fund	\$ 2.4M	\$ 2.5M	\$ 2.6M	\$ 2.7M	\$ 2.9M
Receipt Funds	<u>\$15.6M</u>	<u>\$16.3M</u>	<u>\$17.1M</u>	<u>\$17.9M</u>	<u>\$18.7M</u>
<b>Total Appropriation</b>	<b>\$65.5M</b>	<b>\$68.6M</b>	<b>\$71.9M</b>	<b>\$75.3M</b>	<b>\$78.9M</b>

#### Consolidated Judicial Retirement System

**Retirement System Actuary:** Mellon estimates the cost to be 1.62% of payroll.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$848,880	\$882,071	\$916,560	\$952,398	\$989,636

**General Assembly Actuary:** Hartman & Associates estimates the cost to be 1.52% of payroll.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$796,480	\$827,622	\$859,982	\$893,608	\$987,219

There are available gains of 1.51% of payroll in the Consolidated Judicial Retirement System so a direct appropriation to the retirement system would be necessary to pay the cost.

#### Legislative Retirement System

**Retirement System Actuary:** Charles Dunn estimates the cost to be 1.62% of payroll.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$58,320	\$58,320	\$58,320	\$58,320	\$58,320

**General Assembly Actuary:** Hartman & Associates estimates the cost to be 1.58% of payroll.

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General Fund	\$56,880	\$56,880	\$56,880	\$56,880	\$56,880

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

**Retirement System Actuary:** Mellon estimates the cost to be 0.43% 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>
Local Funds	\$18.4M	\$19.4M	\$20.6M	\$21.8M	\$23.1M

**General Assembly Actuary:** Hartman & Associates estimates the cost to be 0.40% 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>
Local Funds	\$17.1M	\$18.1M	\$19.2M	\$20.3M	\$21.5M

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.

### **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, 2003 actuarial valuation of the fund. The data included 497 active members with an annual payroll of \$49.5 million and 408 retired members in receipt of annual pensions totaling \$19 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, 2003 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.7 million and 235 retired members in receipt of annual pensions totaling \$1.5 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.

### **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.

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**APPROVED BY:** James D. Johnson, Director  
Fiscal Research Division

**DATE:** March 25, 2005  
**Signed Copy Located in the NCGA Principal Clerk's Offices**

