

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 883 (First Edition)
SHORT TITLE: Purchase of Military Service.
SPONSOR(S): Representatives Lucas, Dickson, Glazier, and Killian

FUNDS AFFECTED: General Fund, Highway Fund, and Receipt Funds plus local funds to fund the Local Government Employees' Retirement System.

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and the Local Government Employees' Retirement System.

EFFECTIVE DATE: July 1, 2007

BILL SUMMARY: The bill allows any member of the Teachers' and State Employees' Retirement System and the Local Government Employees' Retirement System to purchase creditable service for period of active duty in the armed forces by making a lump sum payment equal to six percent plus the normal employer rate times the higher of: (1) the members reported compensation for the last 12 months of service or (2) the highest reported compensation the member received during any calendar year times the number of years of military service to be purchased.

The bill repeals all prior law relating to the purchase of military service.

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

Retirement System Actuary: Buck Consultants estimates the cost to be 0.03% of the payroll of all members of the Teachers' and State Employees' Retirement System based on the assumption that 5,000 members will purchase two years of military service.

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
General Fund	\$2.8M	\$2.9M	\$3.0M	\$3.1M	\$3.3M
Highway Fund	\$0.1M	\$0.1M	\$0.1M	\$0.1M	\$0.2M
Receipt Funds	<u>\$0.9M</u>	<u>\$0.9M</u>	<u>\$0.9M</u>	<u>\$1.0M</u>	<u>\$1.0M</u>
TOTAL COST	\$3.8M	\$3.9M	\$4.1M	\$4.3M	\$4.4M

General Assembly Actuary: Hartman & Associates states that the sum of the 6% employee contribution plus the normal rate times compensation will not produce a cost to the System.

There are available gains of 0.34% of payroll in the Teachers' and State Employees' Retirement System to fund this without increasing the contribution rate.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Local Government Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 0.02% of the payroll for all members of the Local Government Employees' Retirement System based on the assumption that 3,000 members will purchase two years of military service.

Local Funds	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
TOTAL COST	\$0.9M	\$1.0M	\$1.0M	\$1.1M	\$1.1M

General Assembly Actuary: Hartman & Associates states that the sum of the 6% employee contribution plus the normal rate times compensation will not produce a cost to the System.

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, 2005 actuarial valuation of the fund. The data included 321,513 active members with an annual payroll of \$11 billion, 134,719 retired members in receipt of annual pensions totaling \$2.5 billion and actuarial value of assets equal to \$49.7 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, 2005 actuarial valuation of the fund. The data included 123,015 active members with an annual payroll of \$4.2 billion, 38,448 retired members in receipt of annual pensions totaling \$575 million and actuarial value of assets equal to \$14.4 billion. 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: 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.

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DATE: April 25, 2007



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