

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

BILL NUMBER: House Bill 1103

SHORT TITLE: Allow Termination of Option Election

SPONSOR(S): Representative Grady

SYSTEM OR PROGRAM AFFECTED: Teachers' & State Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: When a member retires, there are several options that are available. Some options only provide a monthly benefit during the member's lifetime while other options are available to leave a monthly benefit to a survivor for life after the member's death. Under the present law, a member is not permitted to change the option selected except in cases of divorce.

This bill would allow any retiree who selected a joint and survivorship option to be able to change options after retirement one time.

EFFECTIVE DATE: July 1, 2003

ESTIMATED IMPACT ON STATE: The System's actuary, Buck Consultants estimates the cost to be 0.24 of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$18.0M	\$19.3M	\$20.6M	\$21.9M	\$23.5M
Highway Fund	\$ 0.9M	\$ 0.9M	\$ 1.0M	\$ 1.1M	\$ 1.1M
Receipt Funds	<u>\$ 5.8M</u>	<u>\$ 6.2M</u>	<u>\$ 6.6M</u>	<u>\$ 7.1M</u>	<u>\$ 7.6M</u>
TOTAL COST	\$24.7M	\$26.4M	\$28.2M	\$30.1M	\$32.2M

The General Assembly's actuary, Hartman & Associates, estimates the cost to be 0.23% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	\$17.3M	\$18.5M	\$19.7M	\$21.1M	\$22.5M
Highway Fund	\$ 0.8M	\$ 0.9M	\$ 1.0M	\$ 1.0M	\$ 1.1M
Receipt Funds	<u>\$ 5.6M</u>	<u>\$ 5.9M</u>	<u>\$ 6.3M</u>	<u>\$ 6.8M</u>	<u>\$ 7.2M</u>
TOTAL COST	\$23.7M	\$25.3M	\$27.0M	\$28.9M	\$30.8M

Because there are insufficient actuarial gains in the Teachers' and State Employees' Retirement System to fund this bill, a direct appropriation to the retirement system would be necessary to pay the costs.

ASSUMPTIONS AND METHODOLOGY: Teacher's & 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, 2001, actuarial valuation of the fund. The data included 297,252 active members with an annual payroll of \$9.5 billion and 112,482 retired members in receipt of annual pensions totaling \$1.83 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

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: May 7, 2003



Signed Copy Located in the NCGA Principal Clerk's Offices