

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

**BILL NUMBER:** Senate Bill 10 (Second Edition)

**SHORT TITLE:** Modify Retired Educator Option

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

**FUNDS AFFECTED:** General Fund, Highway Fund and Receipt Fund

**BILL SUMMARY:** Under the present law, a retiree is allowed to earn in any calendar year or the 12 months immediately following retirement, 50% of the salary earned during the 12 months of service prior to retirement or \$24,180, whichever is greater. Under the present law there is no re-employment earnings restrictions for any retiree who returns as a teacher, who has not been employed in any capacity other than as a substitute or part-time tutor, with a public school for the six months immediately preceding the date of re-employment. The present law is scheduled to sunset on June 30, 2004.

This bill expands the eligibility to return to work with no earnings restrictions to any retired teacher, principal, assistant principal or instructional support personnel position who returns to work in any of these positions, and reduces the six months of separation to two month of separation and completely removes the sunset and makes it a permanent part of the law. Under the current law, an individual must return to work as a teacher.

**EFFECTIVE DATE:** July 1, 2003

**ESTIMATED IMPACT ON STATE:** The System's actuary, Buck Consultants estimates the cost to be 0.61% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
General Fund	\$45.9M	\$49.0M	\$52.3M	\$55.8M	\$59.6M
Highway Fund	\$ 2.2M	\$ 2.4M	\$ 2.6M	\$ 2.7M	\$ 2.9M
Receipt Funds	<u>\$14.8M</u>	<u>\$15.8M</u>	<u>\$16.8M</u>	<u>\$18.0M</u>	<u>\$19.2M</u>
<b>TOTAL COST</b>	<b>\$62.9M</b>	<b>\$67.2M</b>	<b>\$71.7M</b>	<b>\$76.6M</b>	<b>\$81.7M</b>

The General Assembly's actuary, Hartman & Associates, estimates the cost to be 0.56% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
General Fund	\$42.1M	\$45.0M	\$48.0M	\$51.3M	\$54.7M
Highway Fund	\$ 2.1M	\$ 2.2M	\$ 2.4M	\$ 2.5M	\$ 2.7M
Receipt Funds	<u>\$13.6M</u>	<u>\$14.5M</u>	<u>\$15.5M</u>	<u>\$16.5M</u>	<u>\$17.6M</u>
<b>TOTAL COST</b>	<b>\$57.7M</b>	<b>\$61.7M</b>	<b>\$65.8M</b>	<b>\$70.3M</b>	<b>\$75.0M</b>

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:** 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, 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



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