

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

**BILL NUMBER:** Senate Bill 473

**SHORT TITLE:** Retirement System Technical Changes. - AB

**SPONSOR(S):** Senators Garrou, Hagan, Dalton, Allran, and Reeves.

**SYSTEM OR PROGRAM AFFECTED:** Teachers' & State Employees' Retirement System, Local Governmental Employees' Retirement System, and Disability Income Plan.

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

**BILL SUMMARY:** (1) Amends the definition of “compensation” in the State and Local Systems and the definition of “creditable service” in the State and Local Systems. (2) Amends the State and Local Systems, pertaining to benefits in the event of the death of a retiree. (3) Amends the conditions stated in the State and Local Systems to determine whether a beneficiary may elect an alternate benefit. (4) Amends the State System, pertaining to military service credit and the Local System pertaining to the purchase of creditable service for military service. (5) Amends the State and Local Systems, pertaining to the purchase of creditable service rendered to any state, territory, or other governmental subdivision of the United States. (6) Amends the State System in GS 135-4 (creditable service) and the Local System in GS 128-26 (allowance for service), by adding a new subsection pertaining to retroactive membership service. (7) Amends the State and Local Systems, by adding a new subsection pertaining to retroactive adjustment in compensation or an underreporting of compensation. (8) Amends the State and Local Systems, relating to the reexamination of beneficiaries retired for disability, to provide that the benefit payable to a beneficiary who does not or refuses to provide the information requested within 60 days shall not be paid a benefit until the information is provided. If such a refusal or failure to provide information continues for 240 days, the right of the beneficiary to a benefit may be terminated. (9) Amends the State and Local Systems pertaining to the proof that a member must supply to be allowed omitted membership service. (10) Amends the Disability Income Plan regarding the contents of the statement of earnings that beneficiaries must provide. Also provides that failure to provide such information for 240 days may result in the termination of benefits (current law requires termination if not provided for 180 days).

**EFFECTIVE DATE:** When it becomes law.

**ESTIMATED IMPACT ON STATE:** Retirement System Actuary: Buck Consultants estimates the cost to be negligible.

General Assembly Actuary: Hartman & Associates does not expect the changes to produce a significant impact on the systems.

**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.

### **Disability Income Plan of North Carolina**

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 Plan. The data included 306,731 active members with an annual payroll of \$10.2 billion and 4,475 disabled members in receipt of annual disability benefits totaling \$41.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) across-the-board salary increases of 5.75%, (c) the rates of disability and termination are based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transaction Volume XXXIX, 1987. The rates of disability have been adjusted by a factor of 0.80, (d) the assumed rate of approval for Social Security disability benefits prior to the completion of four years of disability from the conclusion of the waiting period is 75%, (e) Social Security disability benefit are assumed to increase 3.75% per year. Claim cost of LTD benefits were calculated using the one-year term cost method; i.e., the cost of coverage is the present value of all LTD benefit payments that will be made on expected claims incurred during the year following the valuation date. Claims cost for STD benefits were calculated on a pay-as-you-go basis. 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, 2001, actuarial valuation of the fund. The data included 118,580 active members with an annual payroll of \$3.6 billion and 31,352 retired members in receipt of annual pensions totaling \$392.7 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 - 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:** March 31, 2003



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