

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: Committee Substitute House Bill 1739

SHORT TITLE: Charter School Benefits

SPONSOR(S): Representative Leo Daughtry

SYSTEM AFFECTED: The Teachers' and State Employees' Retirement System

BILL SUMMARY: : Require each charter school boards of directors to make an irrevocable election, in writing, whether the employees of the school will be members of the Teachers' and State Employees' Retirement System. The boards of directors of charter schools must make this election by September 1, 1998. The election would be effective on the date the election is made for current employees. For employees hired after that date, it would be effective on their date of entry into eligible service. For charter schools approved after 1998, the election must be made with 30 days after the charter agreement is signed. This election would be effective for all employees on their date of entry into eligible service. The boards of directors must notify in writing their employees as to whether they elected to join, and the employees must acknowledge in writing that they received this notice.

The bill also allows charter school employees, who subsequently return to a public school or State employment, to purchase the years of service that they were employed in a charter school, whose board of directors did not elect to join the Retirement System. To be eligible for this purchase, the member must complete five years of creditable service after the charter school employment and the member must pay the "full actuarial cost" for the service purchase.

EFFECTIVE DATE: July 1, 1998.

ESTIMATED IMPACT ON STATE: ESTIMATED IMPACT

Retirement System Actuary: Buck Consultants states that there is anti-selection against the Retirement System since some boards with older, higher cost employees have chosen to join the System and those with younger, lower cost employees have chosen not to participate. Buck Consultants estimates there would be no cost to the Retirement System for any purchases of charter school employment since the members would be paying the "full actuarial cost".

General Assembly Actuary: Hartman & Associates states, that if the demographics of the employees of the charter schools electing coverage is similar to the current covered employees in the State System, the current rate is sufficient, but since each employer will make an election, the potential exists for anti-selection on the part of the schools. The data, of current 623 charter school employees of which 130 are participating in the Retirement System, reveals that anti-selection is occurring, as the participating rate for employees over age 40 is more than double that for employees under age 40.

Hartman & Associates estimates there would be no cost to the Retirement System for any purchases of charter school employment since the members would be paying the "full actuarial cost".

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, 1996 actuarial valuation of the fund. The data included 263,920 active members with an annual payroll of \$6.845 billion and 88,605 retired members in receipt of annual pensions totaling \$1.096 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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 an 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: : Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION: 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.

(919) 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: Tom Covington

DATE: June 18, 1998



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