

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 950 (Fourth Edition)

SHORT TITLE: Modify 2011 Appropriations Act.

SPONSOR(S):

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Funds

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Optional Retirement Plan, Consolidated Judicial Retirement System and Legislative Retirement.

EFFECTIVE DATE: July 1, 2012

BILL SUMMARY:

SECTION 25.12 EXPAND OPTIONAL RETIREMENT PROGRAM FOR UNIVERSITY OF NORTH CAROLINA SYSTEM

This change will allow any and all employees, both EPA and SPA, hired on or after January 1, 2013 by the University of North Carolina System to have a choice between the Teachers' and State Employees' Retirement System (a defined benefit plan) or the Optional Retirement Program (a defined contribution plan).

ESTIMATED IMPACT ON STATE:

Buck Consultants, the Retirement Systems' actuary, states that the total dollar contribution needed to pay off the current unfunded liability does not change. To the extent that new university employees select the Optional Retirement Program, the financial effect is that the University System as an employer will pay less future contributions toward the current unfunded liability than they would have otherwise under current law.

Hartman & Associates, the General Assembly's actuary, would expect younger employees to be more likely to select the Optional Retirement Program and older employees more likely to select the State System. As this occurs, the normal cost rate in the State System will gradually increase.

BILL SUMMARY:

SECTION 25.13 PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE JUDICIAL RETIREMENT SYSTEM AND THE LEGISLATIVE RETIREMENT SYSTEM

This provides a cost-of-living adjustment of one percent (1%) to retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System

ESTIMATED IMPACT ON STATE:

The estimated cost to grant a one percent (1%) COLA for **Teachers' and State Employees' Retirement System** is as follows:

Retirement System Actuary: Buck Consultants estimates the cost to be 0.33% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
General Fund	\$32.1M	\$32.1M	\$32.1M	\$32.1M	\$32.1M
Highway Fund	\$1.0M	\$1.0M	\$1.0M	\$1.0M	\$1.0M
Receipt Funds	<u>\$12.4M</u>	<u>\$12.4M</u>	<u>\$12.4M</u>	<u>\$12.4M</u>	<u>\$12.4M</u>
Total Cost	\$45.5M	\$45.5M	\$45.5M	\$45.5M	\$45.5M

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.32% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
General Fund	\$31.1M	\$31.1M	\$31.1M	\$31.1M	\$31.1M
Highway Fund	\$1.0M	\$1.0M	\$1.0M	\$1.0M	\$1.0M
Receipt Funds	<u>\$11.0M</u>	<u>\$11.0M</u>	<u>\$11.0M</u>	<u>\$11.0M</u>	<u>\$11.0M</u>
Total Cost	\$44.1M	\$44.1M	\$44.1M	\$44.1M	\$44.1M

The estimated cost to grant a one percent (1%) COLA for the **Consolidated Judicial Retirement System** is as follows:

Retirement System Actuary: Buck Consultants estimates the cost to be 0.58% of the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
General Fund	\$385,000	\$385,000	\$385,000	\$385,000	\$385,000

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.57% the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$378,000	\$378,000	\$378,000	\$378,000	\$378,000

The estimated cost to grant a one percent (1%) COLA for the **Legislative Retirement System** is as follows:

Retirement System Actuary: Charles W. Dunn estimates the cost to be 0.59% of the payroll of all members of the Legislative Retirement System.

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>
General Fund	\$21,358	\$21,358	\$21,358	\$21,358	\$21,358

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.60% the payroll of all members of the Consolidated Judicial Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$21,720	\$21,720	\$21,720	\$21,720	\$21,720

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, 2010 actuarial valuation of the System. The data included 317,740 active members with an annual payroll of \$13.1 billion, 163,938 retired members in receipt of annual pensions totaling \$3.3 billion and actuarial value of assets equal to \$57.1 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 9.10% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year for male teachers, set forward one year for all general employees and unadjusted for female teachers and all law enforcement officers, (f) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a amortization period of nine years. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Consolidated Judicial 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, 2010 actuarial valuation of the System. The data included 566 active members with an annual payroll of \$66.6 million, 543 retired members in receipt of annual pensions totaling \$30.8 million and actuarial value of assets equal to \$451 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) salary increase rate between 5% and 5.95% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward one year, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set back one year, (f) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected unit credit with an amortization period of nine years. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

Legislative 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, 2010 actuarial valuation of the fund. The data included 170 active members with an annual payroll of \$3.6 million, 258 retired members in receipt of annual pensions totaling \$157,577 and actuarial value of assets equal to \$29.8 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1971 Group Annuity Mortality tables for deaths in service and after retirement and (c) 100% vesting after five years of service with no assumptions for terminations other than death and disability. The actuarial cost method used was the projected unit credit cost method with an amortization period of eight years. Projected benefits and the

corresponding liabilities are allocated based on proration by creditable service. The actuarial liability is computed by using member service to date and attributing an equal benefit amount to each year of credited and expected future service. Detailed information concerning these assumptions and methods are shown in the actuary's report, which is available upon request from Stanley Moore.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC
Charles W. Dunn

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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APPROVED BY: Mark Trogdon, Acting Director
Fiscal Research Division

DATE: June 12, 2012



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