

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE**

BILL NUMBER: House Bill 1276

SHORT TITLE: Increase LEO Retirement

SPONSOR(S): Representatives Fitch, Blue, and Michaux

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund, Receipts and Local Government Funds

BILL SUMMARY: Provides an accrual rate of 2.5% for each year of service as a law enforcement officer and provides for unreduced retirement after 25 years of service as a law enforcement officer regardless of age. The bill also eliminates the special separation allowance of .85% of salary for each year of service for those who retire on or after January 1, 1999.

EFFECTIVE DATE: January 1, 1999

ESTIMATED IMPACT ON STATE

Teachers' and State Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase by .0425% of the payroll of all members of the Teachers' and State Employee's Retirement System. Buck Consultants estimates the cost to fund the accrued liability cost will be .2598% of the payroll of all members.

<u>General Fund</u>	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$2.5m	\$2.6m	\$2.7m	\$2.8m	\$3.0m
Accrued Liability	<u>\$15.3m</u>	<u>\$15.9m</u>	<u>\$16.6m</u>	<u>\$17.3m</u>	<u>\$18.1m</u>
Total General Fund	\$17.8m	\$18.5m	\$19.3m	\$20.1m	\$21.1m
<u>Highway Fund</u>	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$.2m	\$.2m	\$.2m	\$.2m	\$.3m
Accrued Liability	<u>\$1.3m</u>	<u>\$1.4m</u>	<u>\$1.4m</u>	<u>\$1.5m</u>	<u>\$1.5m</u>
Total Highway Fund	\$1.5m	\$1.6m	\$1.6m	\$1.7m	\$1.8m
<u>Receipt Funds</u>	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$.6m	\$.6m	\$.6m	\$.7m	\$.7m
Accrued Liability	<u>\$3.5m</u>	<u>\$3.7m</u>	<u>\$3.8m</u>	<u>\$4.0m</u>	<u>\$4.2m</u>
Total Receipt Funds	\$4.1m	\$4.3m	\$4.4m	\$4.7m	\$4.9m
	1998-99	1999-2000	2000-01	2001-02	2002-03
Total Cost from all Funds	\$23.4m	\$24.4m	\$25.5m	\$26.6m	\$27.7m
Less Separation Allowance	<u>\$ 0.1m</u>	<u>\$0.3m</u>	<u>\$0.8m</u>	<u>\$1.3m</u>	<u>\$1.8m</u>
NET COST	\$23.3m	\$24.1m	\$24.7m	\$25.3m	\$25.9m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase by .0767% of the payroll of all members of the Teachers' and State Employee's Retirement

System. Hartman & Associates estimates the cost to fund the accrued liability cost will be .2187% of the payroll of all members.

<u>General Fund</u>	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$4.5m	\$4.7m	\$4.9m	\$5.1m	\$5.3m
Accrued Liability	<u>\$12.9m</u>	<u>\$15.9m</u>	<u>\$16.6m</u>	<u>\$17.3m</u>	<u>\$18.1m</u>
Total General Fund	\$17.4m	\$20.6m	\$21.5m	\$22.4m	\$23.4m
<u>Highway Fund</u>	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$.4m	\$.4m	\$.4m	\$.4m	\$.5m
Accrued Liability	<u>\$1.1m</u>	<u>\$1.2m</u>	<u>\$1.2m</u>	<u>\$1.3m</u>	<u>\$1.3m</u>
Total Highway Fund	\$1.5m	\$1.6m	\$1.6m	\$1.7m	\$1.8m
<u>Receipt Funds</u>	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$1.0m	\$1.1m	\$1.1m	\$1.2m	\$1.2m
Accrued Liability	<u>\$3.0m</u>	<u>\$3.1m</u>	<u>\$3.2m</u>	<u>\$3.4m</u>	<u>\$3.5m</u>
Total Receipt Funds	\$4.0m	\$4.2m	\$4.3m	\$4.6m	\$4.7m
Total Cost from all Funds	\$22.9m	\$26.4m	\$27.5m	\$28.7m	\$29.9m
Less Separation Allowance	<u>\$ 0.1m</u>	<u>\$0.5m</u>	<u>\$0.9m</u>	<u>\$1.5m</u>	<u>\$2.3m</u>
NET COST	\$23.8m	\$25.9m	\$26.6m	\$27.2m	\$27.6m

The above cost estimates are based on 3,173 State law enforcement officers employed during the calendar year of 1997 projected at the average annual increase in compensation base of 4.28% for the State System over the last five years.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 5.27% of payroll to 10.97% for a net increase of 5.70% of the payroll of law enforcement officers. Buck Consultants estimates that the first year annual cost to pay the unfunded accrued liability will be \$31,768,000 based on a 15 year amortization period..

	1998-99	1999-2000	2000-01	2001-02	2002-03
Normal Cost Increase	\$25.3m	\$27.0m	\$28.6m	\$30.5m	\$32.5m
Accrued Liability	<u>\$31.8m</u>	<u>\$33.8m</u>	<u>\$36.0m</u>	<u>\$38.3m</u>	<u>\$40.7m</u>
Total Local Funds	\$57.1m	\$60.8m	\$64.6m	\$68.8m	\$73.2m
Less					
Separation Allowance	<u>\$.3m</u>	<u>\$.8m</u>	<u>\$1.5m</u>	<u>\$2.5m</u>	<u>\$3.6m</u>
NET COST	\$56.8m	\$60.0m	\$63.1m	\$66.3m	\$69.6m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 5.27% of payroll to 9.46% for a net increase of 4.19% of the payroll of law enforcement officers. They also estimates that the first year annual cost to pay the unfunded accrued liability will be \$34,928,554 which is expressed as 7.86% of the payroll of law enforcement officers.

	1998-99	1999-2000	2000-01	2001-02	2002-03
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Normal Cost Increase	\$18.6m	\$19.8m	\$21.1m	\$22.4m	\$23.8m
Accrued Liability	<u>\$34.9m</u>	<u>\$37.2m</u>	<u>\$39.5m</u>	<u>\$42.1m</u>	<u>\$44.8m</u>
Total Local Funds	\$53.5m	\$57.0m	\$60.6m	\$64.5m	\$68.6m
Less					
Separation Allowance	<u>\$.3m</u>	<u>\$1.2m</u>	<u>\$2.2m</u>	<u>\$3.3m</u>	<u>\$4.8m</u>
NET COST	\$53.2m	\$55.8m	\$58.4m	\$61.2m	\$63.8m

The above cost estimates are based on 15,229 local law enforcement officers employed during the calendar year of 1997 with an annual compensation base of \$444,383,645 projected at the average annual increase in compensation base of 6.4% for the Local System over the last five years.

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.

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, 1996 actuarial valuation of the fund. The data included 104,454 active members with an annual payroll of \$2.594 billion and 24,028 retired members in receipt of annual pensions totaling \$227.7 million. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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: : 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.

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DATE: June 4, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices