**BILL NUMBER:** House Bill 999

**SHORT TITLE:** Retirement COLA Increases

**SPONSOR(S):** Representatives Cox and Barefoot

**SYSTEM OR PROGRAM AFFECTED:** Teacher's & State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System

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

**BILL SUMMARY:** Provides a post-retirement increase of 1.6% in the benefits of retirees of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System and the Local Governmental Employees' Retirement System.

**EFFECTIVE DATE:** July 1, 2001

**ESTIMATED IMPACT ON STATE:**        **Teachers' and State Employee's Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost to be 0.44% of the payroll of all members of the Teachers' and State Employee's Retirement System.

|  | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** |
|---|---|---|---|---|---|
| General Fund | $31.6M | $33.4M | $35.4M | $37.5M | $39.8M |
| Highway Fund | $ 1.6M | $ 1.7M | $ 1.8M | $ 1.9M | $ 2.0M |
| Receipt Funds | $ 9.5M | $ 10.1M | $ 10.7M | $ 11.3M | $ 12.0M |
| TOTAL COST | $ 42.7M | $ 45.2M | $ 47.9M | $ 50.7M | $ 53.8M |

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.40% of the payroll of all members of the Teachers' and State Employee's Retirement System.

|  | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** |
|---|---|---|---|---|---|
| General Fund | $28.7M | $30.4M | $32.2M | $34.1M | $36.2M |
| Highway Fund | $ 1.5M | $ 1.5M | $ 1.6M | $ 1.7M | $ 1.8M |
| Receipt Funds | $ 8.6M | $ 9.2M | $ 9.7M | $10.3M | $ 10.9M |
| TOTAL COST | $38.8M | $41.1M | $43.5M | $46.1M | $48.9M |

**There are actuarial gains within the System to fund this increase.**

**Consolidated Judicial Retirement System**

Retirement System Actuary: Buck Consultants estimates the cost to be .63% of payroll.

|  | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** |
|---|---|---|---|---|---|
| General Fund | $315,000 | $330,057 | $345,834 | $362,365 | $379,686 |

| General Assembly Actuary: | Hartman & Associates estimates the cost to be 0.55% of payroll. | | | | |
|---|---|---|---|---|---|
| | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** |
| General Fund | $275,000 | $288,145 | $301,918 | $316,350 | $331,472 |

**There are actuarial gains within the System to fund this increase.**

<center><b>Legislative Retirement System</b></center>

| Retirement System Actuary: | Charles Dunn estimates the cost to be 0.78% of payroll. | | | | |
|---|---|---|---|---|---|
| | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** |
| General Fund | $28,080 | $28,080 | $28,080 | $28,080 | $28,080 |

| General Assembly Actuary: | Hartman & Associates estimates the cost to be 0.80% of payroll. | | | | |
|---|---|---|---|---|---|
| | **2001-02** | **2002-03** | **2003-04** | **2004-05** | **2005-06** |
| General Fund | $28,800 | $28,800 | $28,800 | $28,800 | $28,800 |

## ESTIMATED IMPACT ON LOCAL GOVERNMENTS:
<center><b>Local Governmental Employee's Retirement System</b></center>

Retirement System Actuary:    Buck Consultants estimates the cost will be 0.16% of the payroll of all members of the Local Governmental Employees' Retirement System.

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|---|---|
| Total Local Funds | $5.8M | $6.2M | $6.6M | $7.1M | $7.5M |

General Assembly Actuary:    Hartman & Associates estimates the cost will be 0.13% of the payroll of all members of the Local Governmental Employees' Retirement System.

| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 |
|---|---|---|---|---|---|
| Total Local Funds | $4.8M | $5.1M | $5.4M | $5.7M | $6.1M |

**There are actuarial gains within the System to fund this increase.**

**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, 1999 actuarial valuation of the fund. The data included 285,784 active members with an annual payroll of $8.4 billion and 102,939 retired members in receipt of annual pensions totaling $1.510 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.

**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, 1999 actuarial valuation of the fund. The data included 470 active members with an annual payroll of $43 million and 361 retired members in receipt of annual pensions totaling $13.3 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 Table for deaths after retirement, and (d) rates of separation from active service based on System experience. The actuarial cost method used to determine the liabilities is the projected benefit method; however, the method used to

determine the contribution rate is the projected unit credit method with 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.

**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, 1999 actuarial valuation of the fund. The data included 168 active members with an annual payroll of $3.7 million and 189 retired members in receipt of annual pensions totaling $1,026,348. 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 service prorate. 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 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, 1999 actuarial valuation of the fund. The data included 112,431 active members with an annual payroll of $3.12 billion and 28,562 retired members in receipt of annual pensions totaling $318 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  733-4910**

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