GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2009

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 642 (Second Edition)

SHORT TITLE: Retirement Technical Corrections.

SPONSOR(S): Representative Tucker

FUNDS AFFECTED: (1) General Fund, Highway Fund, and Receipt Funds for the Teachers' and State Employees' Retirement System, (2) General Fund for the Consolidated Judicial Retirement System, (3) General Fund for the Legislative Retirement System, (4) General Fund for the Firemen's and Rescue Squad Workers' Pension Fund and (5) local funds for the Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, Local Governmental Employees' Retirement System and Firemen's and Rescue Squad Workers' Pension Fund.

EFFECTIVE DATE: July 1, 2009

BILL SUMMARY: Makes technical corrections and conforming changes to the various retirement systems and pension fund:

Section 1: Allows for non-spouse beneficiary rollovers to an Individual Retirement Account (IRA) in the State and Local Retirement Systems and Legislative System. When a member takes a refund of their contributions, they can either pay taxes on the benefit or defer the taxes by rolling the refund over to an IRA. If the member dies and the refund goes to a spouse, the spouse can do the same. New federal laws allow a non-spouse beneficiary (e.g. child, parent, or friend) to also roll the refund over to an IRA.

Section 2: (a) Removes the non-applicable language about fire departments in the Local Retirement System. The language would have allowed fire departments that are organized as non-profits, rather than governmental entities, to participate in Local Governmental Employees' Retirement System. However, it was only effective if the Internal Revenue Service granted approval. The IRS denied approval, so the language never applied and this would just remove this non-applicable language.

(b) Changes in the Firemen's and Rescue Squad Workers' Pension Fund include roster & money deadlines, adjustment of prior service wording, payment of full death benefit to beneficiary, and removal of $25 administrative fee. The roster and money deadlines makes the administration of the Fund easier by increasing consistency and giving statutory authority to force into compliance those departments that are not timely in their reporting. Some departments and employers pay a portion of the member's contributions and, upon withdrawal, those contributions are refunded to the department or employer, not the member. In the event of death, those contributions are also refunded to the fire department or rescue squads unit and only the amount truly paid by the member is refunded to the beneficiary. This change would have the Pension Fund to pay all contributions to the beneficiary, regardless of the source.

Section 3: Corrects some omitted changes that were made in 2007 in both the State and Local Retirement Systems regarding the filing timeframe of an application for retirement. The change was from 90 days to 120 days allowing the Retirement System Division to spread that workload more evenly.

Section 4: Removes the name(s) of the forms and just use form numbers for an application for retirement and the election of option.

Section 5: (1) Adds language in the State and Local Retirement Systems to provide guidance for handling the payment of benefits if a member dies (i) after the effective date of retirement, (ii) following receipt by the Board of Trustees of an election of benefits form and (iii) before the first benefit check is cashed, then the retirement benefit is payable in accordance with the member's election of benefits.

(2) Adds language in State and Local Retirement Systems that would provide guidance for handling the payment of benefits when the member dies after the effective date of retirement but prior to completion of the election of benefits form. If an election of benefits has not been made and only one beneficiary has been named, then that beneficiary could select the retirement option. If more than one beneficiary has been named, then the administrator of the estate could make the election.

(3) In calculation of the Survivor's Alternate Benefit (SAB), apply terminal payouts (for example unused vacation time and bonus leave) to the month prior to the month of death. The SAB is payable to a member's sole beneficiary when an active member dies with at least 20 years of service. Without this change, the calculation is slightly unfair for those who die early in a month because their large terminal payouts are added to a small amount of regular salary for a short month, making it less likely that their terminal payouts are part of their highest 48 months of earnings. The highest 48 months of earnings are used in calculating the benefit. This is a somewhat rare situation because the member has to die while active, with only one named beneficiary, after 20 years of service and die early in the month.

Section 6: Changes related to the Uniformed Services Employment and Reemployment Rights Act, Public Law 103-353 to give more rights to those called into military service in the Reserves or National Guard while serving as an active state or local government employee. They would receive our death benefits if they die while in service. They would also earn credit for service and military differential wages in all cases, not just if they return to employment with state or local government. These changes are required by the federal law.

Section 7: Change omitted salary calculation in the State and Local Retirement Systems to apply to beneficiaries, not just members. This allows corrections if salary was accidentally underreported by the employer. The provision currently applies only to those who have not yet retired and this change would extend the provision to those who have retired.

Section 8: Return-to-Work statutory provision requiring employers in the State and Local Retirement Systems to require employers to report information on rehired retirees, along with the nature of their reemployment and the amount of compensation. It also provides time frame for reporting this information with penalties assessed if requirements aren't met.

Section 9: Change the State Retirement System to provide a 100% joint and survivor payment like it's counterpart in the Local Retirement System. This is a circumstance where a member who has applied for disability but dies before the effective date of retirement.

Section 10: Change National Guard death procedure to give retirees a check in the month of death, consistent with all the other retirement systems.

Section 11: Add the phrase "electronic submission in a form approved by the Board of Trustees or by" in front of "written designation duly acknowledged" **to allow members to change beneficiaries on-line**. Electronic submission would only be available to those with less than 10 years of service to reduce fraud for more substantial accounts and older individuals.

Section 12: Add the phrase "electronic submission or" in front of "written application" **to allow members to file for retirement on-line**.

ESTIMATED IMPACT ON STATE: Both, Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, agree that the changes would not be expected to produce a significant financial impact to the retirement 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, 2007 actuarial valuation of the fund. The data included 338,490 active members with an annual payroll of $12.7 billion, 145,855 retired members in receipt of annual pensions totaling $2.9 billion, and actuarial value of assets equal to $55.3 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) average salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables (tables are not adjusted for male teachers, set forward one year for female teachers, set forward two years for general employees and law enforcement officers and set forward two years for the beneficiaries of deceased member), and (d) rates of separation from active service based on System experience. The actuarial cost method used was the entry age normal cost method and a frozen 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, 2007 actuarial valuation of the fund. The data included 548 active members with an annual payroll of $61.3 million, 482 retired members in receipt of annual pensions totaling $26 million, and actuarial value of assets equal to $430.4 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables, (tables are set forward two years for post-retirement period and set back one year for pre-retirement period and special mortality tables are used for period after disability 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 unit credit. Projected benefits and the corresponding liabilities are allocated based on proration by creditable service. 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, 2007 actuarial valuation of the fund. The data included 170 active members with an annual payroll of $3.7 million, 265 retired members in receipt of annual pensions totaling $1.9 million and actuarial value of assets equal to $30.7 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 service prorata. 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, 2007 actuarial valuation of the fund. The data included 127,959 active members with an annual payroll of $4.75 billion, 42,408 retired members in receipt of annual pensions totaling $689.4 million, and actuarial value of assets equal to $16.8 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables, (tables are set forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members and special mortality tables are used for period after disability 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. Gains and losses are reflected in the normal rate. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Firemen and Rescue Squad Workers' Pension Fund
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2008 actuarial valuation of the fund. The data included 36,160 active members, 10,509 retired members in receipt of annual pensions totaling $21.4 million, and actuarial value of assets equal to $317 million. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) the 1974 George B. Buck Mortality Table for deaths after retirement and (c) rates of separation from active service based on Fund experience. The actuarial cost method used was the entry age 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.

SOURCES OF DATA: Buck Consultants
Hartman & Associates, LLC

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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