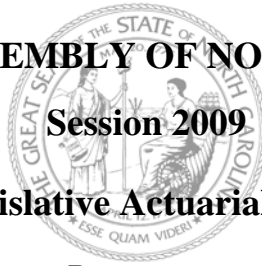


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: House Bill 2054 (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, Highway Fund, and Receipt Funds for the Disability Income Plan, (3) General Fund, Highway Fund, and Receipt Funds for the Death Benefit Plan; General Fund, Highway Fund, and Receipt Funds for the Supplemental Income Plan and (5) local funds for the Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System, Local Governmental Employees' Retirement System, Disability Income Plan, Death Benefit Plan and the Supplemental Income Plan.

EFFECTIVE DATE: July 1, 2010

BILL SUMMARY:

Section 1 (a and b). Makes clear that a member may not change the election of option or beneficiary designation once the first retirement check has been cashed or after the 25th of the month following the month in which the first check is mailed.

Allows a new election of form and/or beneficiary designation under Option 5 if spouse dies or member divorces. Allows a new election of form and/or beneficiary under Option 6 (pop-up) if beneficiary dies prior to first payment.

Clarify that beneficiary for death after effective date but prior to receipt of 6-E or 7-E (choosing payment option) has to be one and only one person eligible to receive refund of contributions.

Section 2 (a and b). Changes the Survivor's Alternate Benefit to be payable when there is one and only one person eligible to receive refund of contributions. Currently, it is payable if they have only named one principal beneficiary. The difference would arise when multiple beneficiaries are named and one or more predeceases the member.

Section 3 (a, b and c). Allows that former employees who have been approved for Long Term Disability, but who are not yet technically receiving the benefit because they cashed out their leave, will be covered by the State Health Plan.

Clarifies that anyone who qualifies for Long Term Disability with transferred service, but does not have 5 years of State membership service, will not eligible for state health benefits while on Long Term Disability.

Allows a member who is on extended short-term disability to be eligible for the Death Benefit.

Section 4 (a and b) Allows a retiree who returns to work in a contributing position, but does not complete three years of service to choose any of the following:

- a. Calculate a retirement allowance on the new service (this is the only option that the current statute appears to allow)
- b. Get a refund of the new contributions.
- c. Leave the new account open pending another subsequent return to service

Members who return for at least 3 years may choose a recalculated retirement allowance or a refund of the new contributions.

Section 5 (a and b). Clarify that elected officials convicted of certain offenses are always eligible for a return of member contributions and interest, if applicable. The present law appears to indicate that these members forfeit “all benefits”, which might include member contributions. 135-18.10(a) and 128-38.4 allows for the return of contributions plus interest, so the two statutes may conflict.

Section 6 (a and b). Increases the time for failure to respond from 90 days to 120 days from the mailing of the election form or effective date of retirement, whichever is later. This gives the agency more flexibility to work with the member before canceling their application for retirement.

Section 7. Moves the timing of change in Long Term Disability offset for Social Security from December to January to mirror timing of change in Social Security check received. This will slightly increase the total benefits paid to these recipients.

Section 8 (a and b). Adds “wrongful demotion” as a valid reason for retroactive adjustment in compensation.

Sections 9, 10, and 11. Simplify calculation of guaranteed refund of contributions in benefit created by transfer of 401(k) balances to either the Teachers’ and State Employees’ Retirement System or the Local Governmental Employees’ Retirement System. These transfers are currently available to law-enforcement officers. Allow law-enforcement officers to transfer any portion of their 401(k) balance, rather than all or none.

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, 2008 actuarial valuation of the fund. The data included 325,618 active members with an annual payroll of \$13.3 billion, 151,353 retired members in receipt of annual pensions totaling \$3.1 billion and actuarial value of assets equal to \$55.1 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.

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, 2008 actuarial valuation of the fund. The data included 123,524 active members with an annual payroll of \$4.97 billion, 44,311 retired members in receipt of annual pensions totaling \$744.7 million and actuarial value of assets equal to \$17.1 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 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.

Disability Income Plan of North Carolina

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, 2008 actuarial valuation of the Plan. The data included 338,951 active members with an annual payroll of \$14.5 billion and 6,214 disabled members in receipt of annual long term benefits totaling \$79.1 million. Significant actuarial assumptions used include (a) an annual investment return rate of 7.25%, (b) assumed rates of disability and termination are based on the Group Long-Term Disability (GLTD) Valuation Tables published in the Society of Actuaries Transactions Volume XXXIX, 1987, adjusted by a factor of 0.80, (c) across-the-board salary increases of 5.75%, (d) Social Security disability benefits are assumed to increase 3.75% per year and (e) rates of approval for Social Security benefits prior to completion of four years of disability is 50%. Claims cost for LTD benefits is calculated using aggregate cost method. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

Death Benefit Plan for State Employees:

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, 2008 actuarial valuation of the Death Benefit Plan. The data included 325,618 active members with an annual payroll of \$13.3 billion. Upon the death of a member in service after one year of membership, or a former member within 180 days after termination of service, or a former member in receipt of a benefit from the Disability Income Plan of North Carolina, a lump sum death benefit is payable to the designated beneficiary or legal representative. The death benefit is equal to the greater of: (1) the compensation on which contributions were made by the member during the calendar year preceding the year in which the death occurs or (2) the greatest compensation on which contributions were made by the member during the 12-month period of service within the 24-month period of service ending on the last day of the month preceding the month in which the last day of actual service occurs. For all employees, the death benefit is subject to a minimum of \$25,000 and up to a maximum of \$50,000. 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.

SOURCES OF DATA:

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

DATE: June 9, 2010



Signed Copy Located in the NCGA Principal Clerk's Offices