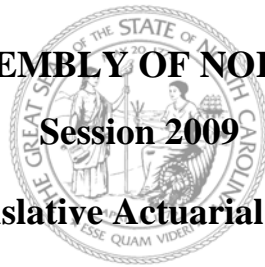


# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Actuarial Note

### RETIREMENT

**BILL NUMBER:** Senate Bill 362 (First Edition)

**SHORT TITLE:** Retired Teachers Return to Work.

**SPONSOR(S):** Senator Swindell

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

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System.

**EFFECTIVE DATE:** October 1, 2009

**BILL SUMMARY:** Current law provides that members of the Teachers' and State Employees' Retirement System (TSERS) must provide no service for a period of six months immediately following the effective date of retirement to avoid any loss of retirement benefits (also referenced as an earnings cap). The bill amends GS 135-1(20) to reduce the waiting period to four months for members of TSERS who are retired teachers as defined in GS 115C-325(5a) retiring on or after October 1, 2009. Provides that members who retired from teaching on or after October 1, 2009, cannot provide part-time, temporary, or substitute service for four months following the effective date of retirement if the retired teacher (1) is at least 65 years old with five years of creditable service, (2) is at least 60 years old with 25 years of creditable service, or (3) has 30 years of service. Removes the prohibition on contractor service after retirement for all state employees. Makes conforming changes to GS 135-3(8)(c) regarding the computation of postretirement earnings for beneficiaries retiring after October 1, 2007, and on or before September 30, 2009, and those who retire after October 1, 2009. Also makes conforming changes to GS 115C-325(5a) to amend the definition of retired teacher.

Provides that if the Internal Revenue Service determines that the proposed changes to GS 135-3(8)(c) regarding the computation of postretirement earnings of retired teachers jeopardize the status of TSERS under the Internal Revenue Code, then the proposed changes are repealed.

Additionally directs that effective July 1, 2009, each local school administrative unit is to pay to TSERS a Reemployed Teacher Contribution Rate of 11.70% as a percentage of covered salaries paid to retired teachers who are exempt from the earnings cap. Requires local school administrative units to make monthly reports to the Retirement Systems Division on the payments made under this Contribution Rate. Directs that the amount paid to a teacher who is exempt from the earnings cap that is more than the state-supported salary level for that position is to be paid from local funds.

Effective October 1, 2009, and sunsets October 1, 2011

**ESTIMATED IMPACT:**

Retirement System Actuary: Buck Consultants estimates the cost to be 0.13% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$13.3M	\$14.0M	\$14.7M	\$15.6M	\$16.4M
Highway Fund	\$0.6M	\$0.6M	\$0.7M	\$0.7M	\$0.8M
Receipt Funds	<u>\$ 5.4M</u>	<u>\$ 5.7M</u>	<u>\$ 6.0M</u>	<u>\$ 6.3M</u>	<u>\$ 6.7M</u>
<b>Total Cost</b>	<b>\$19.3M</b>	<b>\$20.3M</b>	<b>\$21.4M</b>	<b>\$22.6M</b>	<b>\$23.9M</b>

General Assembly Actuary: Hartman & Associates estimates the cost to be 0.15% the payroll of all members of the Teachers' and State Employees' Retirement System.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
General Fund	\$15.3M	\$16.1M	\$17.0M	\$17.9M	\$18.9M
Highway Fund	\$0.7M	\$0.7M	\$0.8M	\$0.8M	\$0.9M
Receipt Funds	<u>\$ 6.2M</u>	<u>\$ 6.6M</u>	<u>\$ 6.9M</u>	<u>\$ 7.3M</u>	<u>\$ 7.7M</u>
<b>Total Cost</b>	<b>\$22.2M</b>	<b>\$23.5M</b>	<b>\$24.7M</b>	<b>\$26.1M</b>	<b>\$27.5M</b>

**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.

**SOURCES OF DATA:** Buck Consultants  
Hartman & Associates, LLC

**TECHNICAL CONSIDERATIONS:** The Retirement System's actuary, Buck Consultants, in letter dated March 24, 2009, said: "Please note that allowing members to retire and return to work as contract employees with little or no period of absence could, in the view of the IRS, invalidate the members' retirement and , if retirement benefits continue, could result in the disqualification of the plan."

**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.

**PREPARED BY:** Stanley Moore

**APPROVED BY:** Marilyn Chism, Director  
Fiscal Research Division

**DATE:** March 25, 2009



**Signed Copy Located in the NCGA Principal Clerk's Offices**