



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2011**

**Legislative Actuarial Note**

**RETIREMENT**

**BILL NUMBER:** Senate Bill 538 (First Edition)

**SHORT TITLE:** Local Retirement COLA Authority.

**SPONSOR(S):** Senator Hartsell

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**FUNDS AFFECTED:** Local funds

**SYSTEM OR PROGRAM AFFECTED:** Local Governmental Employees' Retirement System.

**EFFECTIVE DATE:** July 1, 2011

**BILL SUMMARY:** Amends the law to permit the Board of Trustees of the Local Governmental Employees' Retirement System to fund a cost of living increase in retirement benefits of up to 4%, regardless of any increase or decrease in the Consumer Price Index. The Board may only use actuarial gains within the System to fund the cost of living increase.

**ESTIMATED IMPACT ON LOCAL GOVERNMENTS:** Buck Consultants, the Retirement Systems' actuary, and Hartman & Associates, the General Assembly's actuary, agree that the changes would not increase the contribution rate to the System.

**ASSUMPTIONS AND METHODOLOGY:**

**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, 2009 actuarial valuation of the fund. The data included 123,398 active members with an annual payroll of \$5.2 billion, 46,557 retired members in receipt of annual pensions totaling \$795.8 million and actuarial value of assets equal to \$17.7 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25% which includes inflation of 3%, (b) projected salary increases between 4.25% to 8.55% which includes inflation of 3.5%, (c) RP-2000 Mortality tables for retirees are set forward two years for male general employees, firemen and law enforcement and unadjusted for female general employees, (d) RP-2000 Mortality tables for disabled retirees are set back six years for males and set forward one year for females, (e) RP-2000 Mortality tables for active employees are set forward two years for male general employees, firemen and law enforcement officers and unadjusted for female general employees, (f) rates of separation from active service based on System experience. The actuarial cost method used was the frozen entry age. 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.

**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.

**PREPARED BY:** Stanley Moore

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division

**DATE:** April 20, 2011



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