

2001

**HOUSE
PENSIONS &
RETIREMENT**

MINUTES

**HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT**

2001 – 2002 SESSION

COMMITTEE CHAIRS

Representatives Barefoot and Cox

COMMITTEE VICE CHAIR

Representative McCombs

Jackie Pittman and Jennifer Edwards

COMMITTEE ASSISTANTS

NORTH CAROLINA GENERAL ASSEMBLY
HOUSE PENSIONS AND RETIREMENT COMMITTEE
2001 – 2002 SESSION



Rep. Barefoot
Chair



Rep. Cox
Chair



Rep. McCombs
Vice Chair



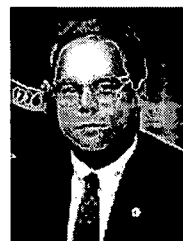
Rep. Barbee



Rep. Easterling



Rep. Hensley



Rep. Morgan



Rep. Oldham



Rep. Rogers



Rep. Shubert



Rep. Starnes



Rep. Tolson



Rep. Wilson, C.



Rep. Wilson, G.



Rep. Yongue

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

2001 - 2002 SESSION

<u>MEMBER</u>	<u>ASSISTANT</u>	<u>PHONE</u>	<u>OFFICE</u>	<u>SEAT</u>
BAREFOOT, Dan Chairman	Jackie Pittman Committee Assistant	715-3021	416B LOB	72
COX, Leslie Chairman	Jennifer Edwards Committee Assistant	733-5746	1220 LB	15
McCOMBS, Gene Vice-Chairman	Suzanne Erskine	733-5881	514 LOB	75
BARBEE, Bobby	Rosa Murray	733-5908	1025 LB	52
EASTERLING, Ruth	Marie Horne	733-5900	631 LOB	6
HENSLEY, Bob	Margie Penven	733-5780	610 LOB	79
MORGAN, Richard	Dixie Epps	715-3010	418B LOB	64
OLDHAM, Pete	Delta Prince	715-2530	634 LOB	58
ROGERS, Gene	Sally Gillis	715-3023	416A LOB	35
SHUBERT, Fern	Carol Wilson	733-5602	1426 LB	98
STARNES, Edgar	Pattie Fleming	715-9664	617 LOB	112
TOLSON, Joe	Gayle Christian	715-3024	402 LOB	59
WILSON, Connie	Chris Floyd	733-5903	502 LOB	97
WILSON, Gene	Rebecca Jones-Cooper	733-7727	1109 LB	51
YONGUE, Doug	Jenny Umstead	733-5821	1303 LB	84
COMMITTEE COUNSEL				
Stanley Moore, Fiscal Research		733-4910		
Karen Cochrane-Brown, Research Division		733-2578		
Theresa Matula, Research Division		733-2578		

ATTENDANCE

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

(Name of Committee)

[illegible]

North Carolina General Assembly
Through House Committee on
Pensions and Retirement

Date: 10/25/2001
Time: 14:07
Page: 001 of 002
Leg. Day: H-156/S-154

2001-2002 Biennium

Bill	Introducer	Short Title	Latest Action	In Date	Out Date
H0004	Hensley	LAW OFFICERS' 25-YEAR RETIREMENT.	H Re-ref Com On Appropriations	02-20-01	04-04-01
H0027	Dedmon	INCREASE FIREMEN AND RESCUE SQUAD PENSIONS.	*H Re-ref Com On Appropriations	02-01-01	04-19-01
H0079	Tucker	STUDY COMMISSION ON EARLY RETIREMENT.	*H Re-ref Com On Rules, Calendar, and Operations of the House	02-08-01	04-19-01
H0080	Tucker	INCREASE LOCAL RETIREMENT BENEFITS.	H Re-ref Com On Appropriations	02-08-01	04-16-01
H0081	Tucker	INCREASE DEATH BENEFIT/LOCAL RETIREMENT.	H Re-ref Com On Appropriations	02-08-01	04-04-01
H0198=	Smith	REPEAL MOREHEAD CITY FIREMEN'S RETIRE. FUND.	*HR Ch. SL 2001-18	03-07-01	04-02-01
H0243	Rogers	TEACHER RETIREMENT ELIGIBILITY.	*H Re-ref Com On Pensions and Retirement	04-23-01	
H0333	Grady	DEATH BENEFITS TO LEGAL REPRESENTATIVE.	*H Re-ref Com On Appropriations	03-01-01	04-16-01
H0477	Gillespie	REPEAL MARION FIREMEN'S SUPP. RETIRE. FUND.	*HR Ch. SL 2001-21	03-20-01	04-02-01
H0547	Arnold	POSTRETIREMENT EARNINGS.	H Ref To Com On Pensions and Retirement	03-12-01	
H0604=	Alexander	AMEND CHARLOTTE FIREFIGHTERS' RETIREMENT ACT.	HR Ch. SL 2001-22	03-14-01	04-02-01
H0621	Weiss	REPEAL CARY FIREMEN'S SUPP. RETIRE. FUND.	*HR Ch. SL 2001-23	03-15-01	04-02-01
H0777	Harrington	REPEAL GASTONIA FIREMEN'S SUPP. PENSION FUND.	HR Ch. SL 2001-34	03-26-01	04-04-01
H0825	Cox	CORRECTIONAL OFFICERS/ 28-YEAR RETIREMENT.	H Re-ref Com On Appropriations	03-27-01	05-10-01
H0943	Barefoot	DISCONTINUED MEMBERSHIP SERVICE.	*HR Ch. SL 2001-435	04-02-01	04-19-01
H0999	Cox	AMEND MEMBERSHIP REQUIREMENTS.	*H Re-ref Com On Appropriations	04-09-01	06-25-01
H1017=	Barefoot	RAISE FIRE AND RESCUE PENSION AMOUNT.	*H Re-ref Com On Appropriations	04-09-01	04-19-01
H1022	Goodwin	STUDY 28-YEAR RETIREMENT/RETENTION INCENTIVES.	*H Re-ref Com On Rules, Calendar, and Operations of the House	04-09-01	06-21-01
\$ H1077	Arnold	FIREFIGHTERS' AND RESCUE SQUAD WORKERS' RETIRE.	*H Re-ref Com On Rules, Calendar, and Operations of the House	04-11-01	05-23-01
H1078	Arnold	STUDY FIREFIGHTERS' EARLY RETIREMENT	*H Re-ref Com On Rules, Calendar, and Operations of the House	04-11-01	05-29-01
H1107	Pope	HONOR WILLIAM GREY	H Re-ref Com On	04-11-01	04-19-01

'\$' indicates the bill is an appropriation bill.

A bold line indicates the bill is an appropriation bill.

'*' indicates that the text of the original bill was changed by some action.

'=' indicates that the original bill is identical to another bill.

North Carolina General Assembly
Through House Committee on
Pensions and Retirement

Date: 10/25/2001
Time: 14:07
Page: 002 of 002

2001-2002 Biennium

Leg. Day: H-156/S-154

Bill	Introducer	Short Title	Latest Action	In Date	Out Date
H1140	Sexton	SMITH. NC NATIONAL GUARD PENSIONS.	H Appropriations Ref To Com On Pensions and Retirement	04-12-01	
H1241	Redwine	SICK LEAVE/JUDICIAL RETIREMENT SYSTEM.	H Re-ref Com On Appropriations	04-12-01	05-16-01
H1255	Cox	INCREASE RETIREMENT BENEFITS.	*H Re-ref Com On Appropriations	04-12-01	05-22-01
H1324	Hackney	AMEND RETIREMENT DEFINITIONS.	*HR Ch. SL 2001-426	04-12-01	05-29-01
H1327	Underhill	RETIRED TEACHERS RETURN TO TEACHING.	H Ref To Com On Pensions and Retirement	04-12-01	
H1331	Oldham	RETIRED SCHOOL EMPLOYEES RETURN TO SCHOOLS.	*H Re-ref Com On Appropriations	04-12-01	06-25-01
H1390	Nesbitt	RETIREMENT WITHDRAWAL SERVICE.	*H Re-ref Com On Appropriations	04-26-01	06-20-01
H1419	Wright	FIREFIGHTERS' & RESCUE WORKERS' RETIREMENT.	H Ref To Com On Pensions and Retirement	04-26-01	
S0139=	Tony Rand	LOCAL FLEX. REGARDING CHARTER SCH. TEACHERS.	*H Cal Pursuant Rule 36(b)	06-20-01	07-18-01
S0158	Aaron W. Plyler	REPEAL MONROE FIREMEN'S SUPP. RETIRE. FUND.	*HR Ch. SL 2001-70	04-18-01	05-10-01
S0544	Allen H. Wellons	CORRECT HENDERSON FIREMEN'S SUPP. RETIRE.	*HR Ch. SL 2001-71	04-17-01	05-10-01

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MINUTES
HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT

March 22, 2001

The House Committee on Pensions and Retirement met on Thursday, March 22, 2001, in Room 1228 of the Legislative Building at 11:00 AM. The following members were present: Chairman Dan Barefoot; Chairman Leslie Cox; Vice-Chairman Gene McCombs; Representatives Barbee, Easterling, Morgan, Shubert, Starnes, Tolson, Gene Wilson, and Yongue. Stanley Moore, Fiscal Research; Karen Cochrane-Brown, Research; and Theresa Matula, Research Division, were also in attendance. A Visitor Registration list is attached and made part of these minutes.

Chairman Cox called the meeting to order. He stated that this meeting would be an introduction and informational session. He added that approximately twelve bills have been assigned to the Committee and it will be necessary to meet one day a week for each of the next four or five weeks. The dates, time, and location of the meetings will be announced each week in the Committee Meeting Notice.

Chairman Cox introduced Cynthia Kelly, House Page, from Wake County. Sergeant at Arms staff members were Richard Riddle and Walter Spell. Staff counsel assigned to the House Pensions and Retirement Committee are Karen Cochrane-Brown and Theresa Matula from Research Division, and Stanley Moore from Fiscal Research Division. Legislative Assistants are Jackie Hamby filling in for Ferebee Stainback, Chairman Cox's office, and Jackie Pittman, Chairman Barefoot's office.

Chairman Cox recognized Michael Williamson, Director, State Retirement System, for an overview of the Division. Mr. Williamson introduced Marshall Barnes, Deputy Director; Debra Bryan, Deputy Director; and Joseph Sansom, legislative liaison from the State Treasurer's Office.

Mr. Williamson referred to a handout which had been given to Committee members. He stated that the mission of the Retirement Systems Division is to administer the retirement system for North Carolina's public employees. He said that covered employees include state teachers, state employees, local governments, members of the judiciary, and legislative members and employees. Mr. Williamson covered the handout page by page. A copy of the handout is attached and made part of these minutes.

In answer to a question, Mr. Williamson called on Mr. Barnes who explained that the amount of a state employee's death benefit is equal to the highest twelve months salary of the last twenty-four with a minimum of \$25,000 and a maximum of \$50,000.

Mr. Williamson, in answer to a question by Representative Starnes, stated an active death benefit would be for a person who dies while currently employed. An inactive death benefit would be for a person who has already left the employment of a local government or state government.

In answer to a question by Representative Shuford, Mr. Williamson stated that the mutual funds were evaluated each day. He added that the legislature uses a 77% valuation market value which gives a margin, or cushion, as the market fluctuates up and down. The figures shown on the Valuation Balance Sheet are based on 77%. Stanley Moore, Staff Counsel, added that the actuarial valuation balance sheet is based on current assets as of 1999 of \$45.7 billion. Of that amount, the state is recognizing \$34.4 billion. That gives the 23% cushion mentioned by Mr. Williamson. The reporting of valuations historically runs fifteen to eighteen months behind. The previous year's figures are received in October of each year. The State of North Carolina has approximately ten money managers. Some of its money is in cash, some real estate, some in venture capital, some in stock market, and some in bonds.

In response to further questions by Representative Shuford, Mr. Williamson stated the Retirement Systems Division has more current figures than the 1999 Valuation Balance Sheets in the handout. He stated he would be happy to meet with Representative Shuford, or any Committee member, to more fully explain the reporting method.

In answer to a question by Representative Starnes regarding HB79 (25-Year Retirement) Mr. Marshall Barnes, Deputy Director of the Retirement Division, stated the bill drops unreduced retirement from 30 years to 25 years. He added that there would be a significant cost to the state system associated with the change - about 3.3% of payroll, or \$257 million dollars. He stated further that the recommendation of a transfer of \$181 million from the retirement system to the General Fund is included in the current budget submitted by Governor Michael F. Easley. He said the Retirement Division believes this will have no long-term impact on the retirement system. The system will remain actuarially sound.

In answer to a question by Representative McCombs, Mr. Barnes stated the 25-Year Retirement bill would cost local governments 1.5% of payroll or approximately \$45 million on an annual basis.

Mr. Barnes said that as far as payments of promised benefits are concerned, the actuary states that the soundness of the fund will not be affected by the reduction of \$270 million in funding during the last biennium, and this year's proposed \$181 million reduction. It will potentially reduce the ability to enhance benefits in the future.

Mr. Barnes pointed out that the death benefit payable to an active employee continues for 180 days after retirement. Upon retirement, the retired employee has

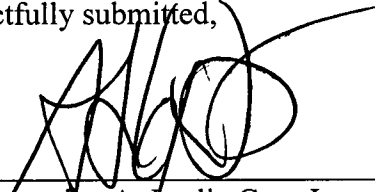
the opportunity to purchase \$5,000 contributory benefit. It is paid monthly and premium is based on nearest age at time of retirement.

Chairman Cox recognized Dr. Dawson, representing the Retired School Personnel, who stated that the trend of reducing the amount of annual contributions to the retirement fund is very alarming. He feels if the trend is continued, there could be problems in years to come.

Chairman Cox stated the Committee members would look into each issue brought before the Committee very seriously. Using the collective wisdom of those on the Committee and others attending, the right solution can be found. He stated that whatever the Committee does must be sound policy for the State of North Carolina.

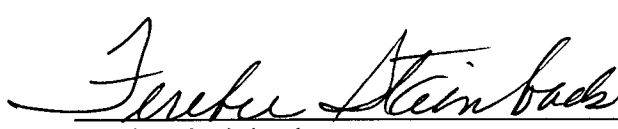
There being no further business, the Chairman adjourned the meeting at 11:35AM.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Representative Daniel W. Barefoot
Chairman



Ferebee Stainback
Committee Assistant

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

March 22, 2001

Name of Committee

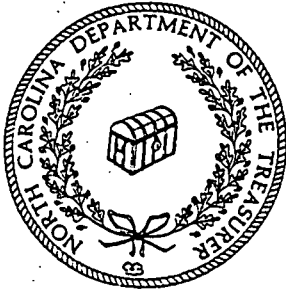
Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Paul Cohen	NCAE
Ken Melton	Alley Associates
Sherry Helton	SEANC
BRANDON THOMAS	SEANC
Andis Watkins	SEANC
Paul Meyer	NCAE
Robert Bone	Bone & Assoc.
Editha T. Craig	Electric Cities
Steve Hoffmann	USBA
Crissy Parker	Bone & Assoc.
Frank Lewis	OSBPM



DEPARTMENT OF STATE TREASURER

Retirement Systems Division

Program Summary

NOVEMBER, 2000

Retirement Systems Division

Mission

To administer the retirement systems for North Carolina's public employees.

It is in the interest of all citizens of North Carolina to recruit and keep a good public workforce. Considered one of the best managed public retirement systems in the nation, North Carolina's system is designed to reward good employees for a job well done. It is a defined benefit plan based on an actuarially sound formula that takes into consideration length of service, salary and age.

North Carolina's Constitution mandates that the State's pension trust funds be used for the exclusive purpose and benefit of retirees. The State has diligently followed the principle of "A promise made is a promise kept" in the administration of its retirement system for public employees.

BENEFIT PROGRAMS ADMINISTERED

- **Teachers' and State Employees' Retirement System**
- **Local Governmental Employees' Retirement System**
- **Consolidated Judicial Retirement System**
- **Legislative Retirement System and Legislative Fund**
- **Firemen's and Rescue Squad Workers' Pension Fund**
- **Supplemental Retirement Income Plan [401 (K)]**
- **Disability Income Plan / Teachers and State Employees**
- **Public Employee Benefit Trust**
 - **Death Benefit for Teachers and State Employees**
 - **Death Benefit for Local Governmental Employees**
 - **Death Benefit for Legislators**
 - **Death Benefit for Retirees**
 - **Separate Insurance Plan for Law Enforcement**
- **National Guard Pension Plan**
- **Registers of Deeds Supplemental Pension Plan**

GENERAL

Legislative Purposes

- Recruit and keep a good public workforce
- Reward career public sector employment
- Protection in cases of disability and death
- Provide deferred income after retirement

Retirement Benefits

- “Defined Benefit Plans”
- Based on Formula/Service/Salary/Age
- Not related to contributions or contribution rates

Retirement Funding

- Trust funds for exclusive purpose
- Long-term promises recognized
- Reserves to guarantee benefits
- Prefunding future payments
- Costs funded by taxpayers served
- Combined member and employer contributions
- Level contributions as a percentage of payroll

**DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION**

FUNDED RATIOS
Year Ended December 31, 1999
(Dollars in Thousands)

<u>Retirement System</u>	<u>Actuarial Liabilities</u>	<u>Recognized Assets</u>	<u>Unfunded Liabilities</u>	<u>Percentage Funded</u>
Teachers' and State Employees'	\$32,787,108	\$ 34,883,261	(\$2,096,153)	106.4%
Local Governmental Employees'	7,687,973	7,625,281	62,692	99.0%
Firemen's and Rescue Squad Workers' *	240,335	202,751	37,584	84.4%
Consolidated Judicial	241,303	259,706	(18,403)	107.6%
Legislative	16,795	19,674	(2,879)	117.1%

* Data for the year ended June 30,2000

CONTRIBUTION RATES
Effective July 1, 2000

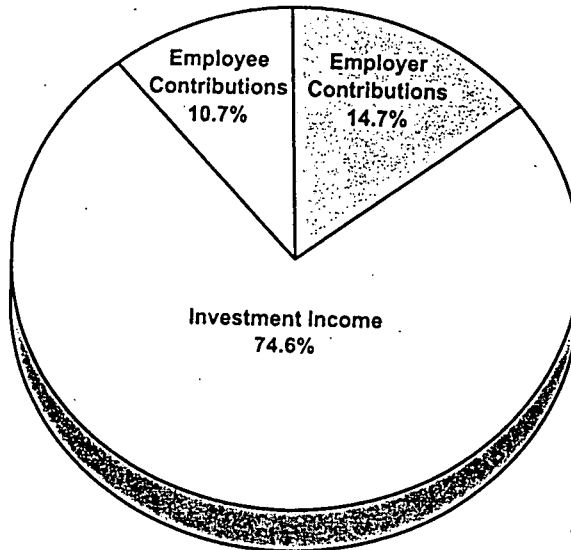
<u>Retirement System</u>	<u>Member Contribution</u>	<u>Employer Contribution</u>
Teachers' and State Employees'	6%	5.33%
Local Governmental Employees'	6%	5.04%*
Fireman's and Rescue Squad Workers'	\$120 a year	\$432 a year
Consolidated Judicial	6%	18.58%
Legislative	7%	22.70%

* Average for 1999

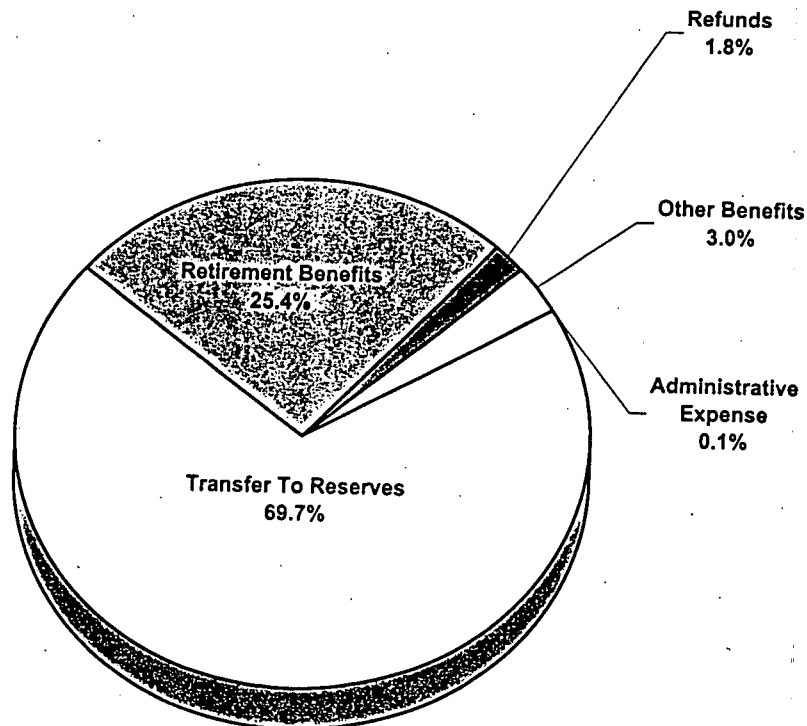
**DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION**

Year Ended December 31, 1999
(Unaudited)

Sources of Funds



Applications of Funds



**DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION**

**Membership Activity Summary
Year Ended December 31, 2000**

	<u>TSERS</u>	<u>LGERS</u>	<u>ERSWPF(1)</u>	<u>CJRS</u>	<u>LRS</u>	<u>TOTAL</u>
Beginning Active Members	285,784	112,431	28,008	470	168	426,861
Beginning Beneficiaries	103,238	28,703	7,552	362	192	140,047
New Members	38,708	18,084	2,778	42	5	59,617
Retirements	7,672	2,293	530	21	5	10,521
Withdrawals	17,350	9,556	839	0	4	27,749
Deaths - Active	462	122	37	1	0	622
Deaths - Beneficiaries	2,801	791	283	14	5	3,894
Ending Active Members	299,008	118,544	29,380	490	164	447,586
Ending Beneficiaries (2)	108,109	30,205	7,799	369	192	146,674

(1) Data for the year ended June 30, 2000

(2) An additional 6,350 beneficiaries are in receipt of monthly benefits from the National Guard Pension Fund, Legislative Retirement Fund, Register of Deeds Supplemental Pension Fund, Disability Income Plan of North Carolina.

Public Employee Retirement Systems of North Carolina Schedule of Contributing Members

	December, 1990	December, 1991	December, 1992	December, 1993	December, 1994	December, 1995	December, 1996	December, 1997	December, 1998	December, 1999
General Government	56,514	57,315	59,700	62,292	63,807	65,732	66,535	67,964	68,634	68,922
Higher Education	27,152	27,418	28,036	28,601	28,902	29,026	29,167	29,384	29,796	30,404
Public Schools	124,434	125,153	129,032	132,650	136,228	138,877	143,867	148,835	152,946	157,679
Community Colleges	9,097	9,222	9,681	9,929	10,014	10,028	10,261	10,428	10,857	11,736
State Law Enforcement Officers	2,806	2,824	3,026	3,002	3,057	3,119	3,129	3,131	3,217	3,201
Judicial	413	418	422	420	439	437	447	454	479	472
Legislative	164	165	165	165	164	167	166	167	166	168
Optional Retirement Program	0	5,318	5,519	5,875	6,197	6,469	6,744	7,040	7,621	7,909
Total — State	225,898	228,034	235,937	243,256	249,080	254,130	260,612	267,683	273,745	280,491

Local Governmental Entities:

Local Government — General	72,972	74,899	77,052	79,767	82,265	84,061	85,880	87,865	89,080	91,780
Local Law Enforcement Officers	11,769	12,258	12,598	12,967	13,620	14,078	14,585	15,110	15,588	16,035
Total — Local	84,741	87,157	89,650	92,734	95,885	98,139	100,465	102,975	104,668	107,815
GRAND TOTAL	310,639	315,191	325,587	335,990	344,965	352,269	361,077	370,658	378,413	388,306

Prepared by:
Department of State Treasurer
Retirement Systems Division
May, 2000

**VALUATION BALANCE SHEET
SHOWING THE ASSETS AND LIABILITIES OF THE
TEACHERS' AND STATE EMPLOYEES'
RETIREMENT SYSTEM OF NORTH CAROLINA**

	DECEMBER 31, 1999	DECEMBER 31, 1998*
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 5,755,037,691	\$ 5,455,150,743
Pension Accumulation Fund	<u>29,128,223,764</u>	<u>24,731,949,551</u>
Total current assets	\$ 34,883,261,455	\$ 30,187,100,294
Future member contributions to Annuity Savings Fund	\$ 5,488,208,412	\$ 5,203,868,058
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 6,219,969,534	\$ 5,837,005,338
Unfunded accrued liability contributions	(2,096,153,188)	167,121,381
Undistributed gain contributions	<u>1,211,643,695</u>	<u>508,857,920</u>
Total prospective contributions	\$ 5,335,460,041	\$ 6,512,984,639
Total Assets	<u>\$ 45,706,929,908</u>	<u>\$ 41,903,952,991</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 5,755,037,691	\$ 5,455,150,743
Future member contributions	<u>5,488,208,412</u>	<u>5,203,868,058</u>
Total contributions to Annuity Savings Fund	\$ 11,243,246,103	\$ 10,659,018,801
Pension Accumulation Fund:		
Benefits currently in payment	\$ 13,569,519,913	\$ 12,310,467,099
Benefits to be paid to current active members	19,100,638,404	18,028,327,170
Reserve for settlement of Faukenbury lawsuit	0	112,330,205
Reserve for increases in retirement allowances effective July 1, 2000 (July 1, 1999 for December 31, 1998 figure)	581,881,793	284,951,796
Reserve from undistributed gains	<u>1,211,643,695</u>	<u>508,857,920</u>
Total benefits payable from Pension Accumulation Fund	\$ 34,463,683,805	\$ 31,244,934,190
Total Liabilities	<u>\$ 45,706,929,908</u>	<u>\$ 41,903,952,991</u>

* These numbers have been revised since the previous valuation to reflect the requirements enacted by the legislature in House Bill 1840.

VALUATION BALANCE SHEET
SHOWING THE ASSETS AND LIABILITIES OF THE
NORTH CAROLINA LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	DECEMBER 31, 1999	DECEMBER 31, 1998
ASSETS		
Current actuarial value of assets:		
Annuity Savings Fund	\$ 1,785,644,805	\$ 1,656,321,314
Pension Accumulation Fund	<u>7,032,937,937</u>	<u>5,968,960,143</u>
Total current assets	\$ 8,818,582,742	\$ 7,625,281,457
Future member contributions to Annuity Savings Fund	\$ 2,016,505,650	\$ 1,908,227,328
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 942,626,889	\$ 1,327,421,710
Accrued liability contributions	66,946,841	62,691,692
Undistributed gain contributions	<u>647,135,925</u>	<u>176,144,528</u>
Total prospective contributions	\$ 1,656,709,655	\$ 1,566,257,930
Total Assets	<u>\$12,491,798,047</u>	<u>\$11,099,766,715</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 1,785,644,805	\$ 1,656,321,314
Future member contributions	<u>2,016,505,650</u>	<u>1,908,227,328</u>
Total contributions to Annuity Savings Fund	\$ 3,802,150,455	\$ 3,564,548,642
Pension Accumulation Fund:		
Benefits currently in payment	\$ 2,827,743,653	\$ 2,592,697,020
Benefits to be paid to current active members	5,086,529,058	4,739,513,503
Reserve for increases in retirement allowances effective July 1, 2000 (July 1, 1999 for December 31, 1998 figure)	128,238,956	26,863,022
Reserve from undistributed gains	<u>647,135,925</u>	<u>176,144,528</u>
Total benefits payable from Pension Accumulation Fund	\$ 8,689,647,592	\$ 7,535,218,073
Total Liabilities	<u>\$12,491,798,047</u>	<u>\$11,099,766,715</u>

VALUATION BALANCE SHEET
SHOWING THE ASSETS AND LIABILITIES OF THE
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM OF NORTH CAROLINA

	DECEMBER 31, 1999	DECEMBER 31, 1998
ASSETS		
Current Actuarial Value of Assets:		
Annuity Savings Fund	\$ 27,337,909	\$ 25,920,569
Pension Accumulation Fund	<u>232,368,369</u>	<u>200,791,642</u>
Total current assets	\$ 259,706,278	\$ 226,712,211
Future member contributions to Annuity Savings Fund	\$ 32,737,583	\$ 30,876,484
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 98,893,948	\$ 92,795,024
Unfunded accrued liability contributions	(18,402,832)	(767,755)
Undistributed gain contributions	<u>21,115,390</u>	<u>3,167,914</u>
Total prospective contributions	\$ 101,606,506	\$ 95,195,183
Total Assets	<u>\$ 394,050,367</u>	<u>\$352,783,878</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 27,337,909	\$ 25,920,569
Future member contributions	<u>32,737,583</u>	<u>30,876,484</u>
Total contributions to Annuity Savings Fund	\$ 60,075,492	\$ 56,797,053
Pension Accumulation Fund:		
Benefits currently in payment	\$ 114,266,759	\$103,477,525
Benefits to be paid to current active members	195,502,179	187,009,529
Reserve for increases in retirement allowances effective July 1, 2000 (July 1, 1999 for December 31, 1998 figure)	3,090,547	2,331,857
Reserve from undistributed gains	<u>21,115,390</u>	<u>3,167,914</u>
Total benefits payable from Pension Accumulation Fund	\$ 333,974,875	\$295,986,825
Total Liabilities	<u>\$ 394,050,367</u>	<u>\$352,783,878</u>

**VALUATION BALANCE SHEET
SHOWING THE ASSETS AND LIABILITIES OF THE
NORTH CAROLINA FIREMEN'S AND
RESCUE SQUAD WORKERS' PENSION FUND**

TOTAL

	June 30, 2000	June 30, 1999
ASSETS		
Current assets:		
Annuity Savings Fund	\$ 23,651,274	\$ 22,066,918
Pension Accumulation Fund	<u>179,099,524</u>	<u>153,178,007</u>
Total current assets	\$ 202,750,798	\$ 175,244,925
Future member contributions to Annuity Savings Fund	\$ 19,393,301	\$ 18,598,028
Prospective contributions to Pension Accumulation Fund:		
Normal contributions	\$ 28,690,924	\$ 24,497,982
Accrued liability contributions	<u>37,584,202</u>	<u>21,324,423</u>
Total prospective contributions	\$ 66,275,126	\$ 45,822,405
Total Assets	<u>\$ 288,419,225</u>	<u>\$ 239,665,358</u>
LIABILITIES		
Annuity Savings Fund:		
Past member contributions	\$ 23,651,274	\$ 22,066,918
Future member contributions	<u>19,393,301</u>	<u>18,598,028</u>
Total contributions to Annuity Savings Fund	\$ 43,044,575	\$ 40,664,946
Pension Accumulation Fund:		
Benefits currently in payment	\$ 110,109,857	\$ 103,283,878
Benefits to be paid to current active members	<u>135,264,793</u>	<u>95,716,534</u>
Total benefits payable from Pension Accumulation Fund	\$ 245,374,650	\$ 199,000,412
Total Liabilities	<u>\$ 288,419,225</u>	<u>\$ 239,665,358</u>

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

Thursday, March 29, 2001
Room 1228, LB
11:00 A.M.

Representative Dan Barefoot, Chairing

1 CALL TO ORDER

11. WELCOME

111. INTRODUCTIONS

IV. BILLS CONSIDERED:

HB 198 REPEAL MOREHEAD CITY FIREMEN'S RETIRE. FUND
Representative Ronnie Smith

HB 477 REPEAL MARION FIREMEN'S SUPP. RETIRE. FUND
Representative Mitch Gillespie

HB 604 AMEND CHARLOTTE FIREFIGHTERS' RETIREMENT ACT
Representative Martha Alexander

HB 621 REPEAL CARY FIREMEN'S SUPP. RETIRE. FUND
Representative Jennifer Weiss

V. COMMENTS

VI. ADJOURN

MINUTES
HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT

March 29 2001

The House Committee on Pensions and Retirement met on Thursday, March 29, 1002 in Room 1228 of the Legislative Building at 11:00 A.M. The following members were present: Chairman Dan Barefoot, Chairman Leslie Cox, Vice Chairman Gene McCombs; Representatives Rogers, Starnes, Tolson, Connie Wilson, Gene Wilson, and Doug Yongue. Staff Counsel members Stanley Moore, Fiscal Research Division, Karen Cochrane-Brown and Theresa Matula, Research Division were also in attendance. A Visitor Registration List is attached and denotes the visitors attending, (Attachment 1).

Representative Barefoot called the meeting to order. He welcomed the visitors and introduced Sergeant-at-Arms staff, James Worth and Dusty Rose; the Pages, Jessie Lewis and Melissa Bullock.

Chairman Barefoot explained that the time, and place for this meeting had been changed since our committee does not have a regular meeting room or a meeting time. The committee that regularly meets here wanted to schedule a meeting. He asked the members to watch their e-mail and Representative Cox would notify members of our next meeting.

The first bill to be considered was **House Bill 198-(committee sub) A BILL TO BE ENTITLED AN ACT TO REPEAL THE MOREHEAD CITY SUPPLEMENTAL FIREMEN'S RETIREMENT FUND**, (Attachment II), sponsored by Representative Ronnie Smith.

Representative Yongue moved to bring the proposed committee substitute for HB 198 before the committee for consideration, (Attachment III). The motion passed.

Representative Smith was recognized to explain the committee substitute. He stated that Morehead City Local Fire Department has a supplemental firemen's retirement fund and they would like to replace that section of the session laws of 1973 and create a new fund that would be administered by a new board under the direction of the State Firemen's Retirement System. A summary prepared by Ms. Theresa Matula and a fiscal note prepared by Stanley Moore are included in the attachments, (Attachments IV and V).

Representative Young moved for a favorable report to the proposed committee substitute #2 which changes the title and an unfavorable report to the committee substitute #1, (Attachment VI).

Chairman Barefoot recognized Representative Weiss to explain **House Bill 621 A BILL TO BE ENTITLED AN ACT TO REPEAL THE CARY LOCAL FIREMEN'S SUPPLEMENTAL RETIREMENT FUND**, (Attachment VII).

Representative Wilson moved to bring the proposed committee substitute for House Bill 621 before the committee for consideration, (Attachment VIII). The motion carried.

Representative Weiss stated the Cary Firemen's Supplemental Retirement Fund repeals the Cary Firemen's supplemental fund to bring the funds under the management of the North Carolina State Firemen's Association and give them more flexibility.

A summary prepared by Ms. Theresa Matula and fiscal note prepared by Stanley Moore are included in the attachments, (Attachments IX and X).

Representative McCombs moved the proposed committee substitute be given a favorable report and the original bill be given an unfavorable report. The motion passed, (Attachment X1).

Representative Gillespie was recognized to explain **House Bill 477 (committee sub)– A BILL TO BE ENTITLED AN ACT TO REPEAL THE LOCAL FIREMEN'S RELIEF FUND OF THE CITY OF MARION**, (Attachment XII).

Representative Young moved to bring the proposed committee substitute for HB 477 before the committee for consideration, (Attachment XIII). The motion passed.

Representative Gillespie stated that 55% of the fire departments in North Carolina have \$5,000 in their fund. The fund in Marion has \$92,000 in its fund. currently running a little over \$14,000 a year. There are only 15 members that are retired that receive money The retirees receive a \$600 check every Christmas and the fire department rolls that money back over. This is a very healthy fund. What they would like to do is provide a \$500 or \$1,000 scholarship per year for members. This allows the department to have more flexibility for this program instead of coming through the General Assembly every year, which takes them a year or two.

In response to Representative Roger's inquiry as to how they made \$14,000 on \$92,000 on an annual basis, Representative Gillespie explained that the town is growing, annexation is coming in, and we received one-half of 1% on the insurance policies as far as fire and lightning insurance policies. That's why it is needed.

A summary prepared by Ms. Matula and fiscal note prepared by Stanley Moore are attached, (Attachments XIV and XV).

Representative Yongue moved that the committee substitute bill (#2) be given a favorable report which changes the title and the committee substitute (#1) be given an unfavorable report. (Attachment XVI). The motion carried.

Representative Alexander was recognized to explain **HOUSE BILL 604, A BILL TO BE ENTITLED AN ACT TO AMEND THE LAW ESTABLISHING THE CHARLOTTE FIREMEN'S RETIREMENT SYSTEM**, (Attachment XVII).

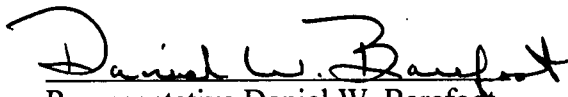
Representative Alexander stated that the bill is to amend the Charlotte Firefighter's Retirement Act. It is self-funded and has a Board of Trustees. What we want to do is to bring this in compliance with federal laws, also to change the benefits formula according to the actuarial approval (1.79%) of the payment. The retirement system is fully absorbed by the system and there's no increased cost to either the participant or to the city of Charlotte. A summary prepared by Karen Cochrane-Brown and a fiscal note prepared by Stanley Moore are included in the attachments, (Attachment XVIII and XIX)

Representative Wilson moved HB 604 be given a favorable report, (Attachment XX). The motion carried.

Chairman Barefoot stated the committee will meet again next week.

The meeting adjourned 11:20 a.m.

Respectfully submitted,


Representative Daniel W. Barefoot
Presiding Chairman


Jackie Pittman
Committee Assistant

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

March 29, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Barbara Avarol	Charlotte Firefighters Retirement System
Boyd Cankler	City of Charlotte
Sherry Melton	SEANC
BRANDON THOMAS	SEANC
Aedis Watkins	SEANC
Ephraim Davis	Electricities
ELLIS HANKINS	NCLM
Steve Hoffman	NCSBA

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 198
Committee Substitute Favorable 3/7/01

Short Title: Repeal Morehead City Firemen's Retire. Fund.

(Local)

Sponsors:

Referred to:

February 22, 2001

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE MOREHEAD CITY SUPPLEMENTAL FIREMEN'S
RETIREMENT FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 360 of the 1973 Session Laws is repealed.

SECTION 2. All funds remaining in the Morehead City Supplemental
Firemen's Retirement Fund are transferred to the Board of Trustees of the Local
Firemen's Relief Fund of the City of Morehead City to be held and administered as
provided in Article 84 of Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

D

HOUSE BILL 198

Committee Substitute Favorable 3/7/01

#2 **PROPOSED COMMITTEE-SUBSTITUTE H198-CSST-10 [v.1] --**

3/29/2001 9:45:26 AM

Short Title: Repeal Morehead City Firemen's Retire. Fund.

(Local)

Sponsors:

Referred to:

February 22, 2001

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE MOREHEAD CITY FIREMEN'S SUPPLEMENTAL
RETIREMENT FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 360 of the 1973 Session Laws is repealed.

SECTION 2. All funds remaining in the Morehead City Firemen's
Supplemental Retirement Fund are transferred to the Board of Trustees of the Local
Firemen's Relief Fund of the City of Morehead City to be held and administered as
provided in Article 84 of Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.



HOUSE BILL 198:

Repeal Morehead City Firemen's Retire. Fund

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: March 29, 2001
Version: PCS for 2nd Edition
 H198-CSST-10 [v.1]

Introduced by: Representative Smith
Summary by: Theresa Matula
 Committee Staff

SUMMARY: *House Bill 198 repeals the Morehead City Firemen's Supplemental Retirement Fund.*

The PCS, H198-CSST-10 [v.1], corrects the fund title.

BILL ANALYSIS:

Section 1 of this bill repeals Chapter 360 of the 1973 Session Laws which provides for the Morehead City Firemen's Supplemental Retirement Fund. The Board of Trustees of the Local Firemen's Relief Fund maintains the Morehead City Firemen's Supplemental Retirement Fund.

Section 2 directs the transfer of all funds remaining in the Morehead City Firemen's Supplemental Retirement Fund to the Board of Trustees of the Local Fireman's Relief Fund to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes.

Section 3 establishes that this act is effective when it becomes law.



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March 5, 2001

MEMORANDUM

TO: Representative Ronnie Smith

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on House Bill 198

Re: Repeal of the Morehead City Firemen's Supplemental Pension Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Co-Chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, House Bill 198, March 5, 2001



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March 5, 2001

Representative Jean Preston
Representative Ronnie Smith
North Carolina House of Representative
Raleigh, North Carolina 27601

Re: Actuarial/Fiscal Note (Morehead City Firemen's Supplemental Retirement Fund)

Dear Representatives Preston and Smith:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: Repeal of the Morehead City Firemen's Supplemental Retirement Fund.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: The Morehead City Firemen's Supplemental Retirement Fund is presently financed by the transfer of all funds in excess of \$5,000 from the City of Morehead City Firemen's Local Relief Fund. This Retirement Fund presently provides supplemental retirement benefits to those retired firemen who are age 55 with 30 or more years of service. The supplemental benefit is equal to one dollar (\$1.00) for each full year as a fireman of the City.

With this repeal, all funds will be transferred from the Morehead City Firemen's Supplemental Retirement Fund back to the City of Morehead City Firemen's Local Relief Fund to be used as allowed by G. S. 58-84-35.

Actuarial Endorsement:

Charles W. Dunn

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore

Stanley Moore
Fiscal Analyst
Fiscal Research Division

ACTUARIAL NOTE
True & Exact Copy of Original
Certified By *Stanley Moore* Date: 3-5-01
Legislative Fiscal Research

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chair/Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☒ Committee Substitute for

H.B. 198 A BILL TO BE ENTITLED AN ACT TO REPEAL THE MOREHEAD CITY SUPPLEMENTAL FIREMEN'S RETIREMENT FUND.

☐ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☒ With a favorable report as to committee substitute bill (# 2), ☒ which changes the title, unfavorable as to (original bill) (Committee Substitute Bill # 11), (and recommendation that the committee substitute bill #) be re-referred to the Committee on

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 621

Short Title: Repeal Cary Firemen's Supp. Retire. Fund.

(Local)

Sponsors: Representatives Weiss; and Miner.

Referred to: Pensions and Retirement.

March 15, 2001

- 1 A BILL TO BE ENTITLED
2 AN ACT TO REPEAL THE CARY LOCAL FIREMEN'S SUPPLEMENTAL
3 RETIREMENT BENEFIT FUND.
4 The General Assembly of North Carolina enacts:
5 **SECTION 1.** Chapter 159 of the 1985 Session Laws, as amended by
6 Chapter 924 of the 1989 Session Laws and by Chapter 147 of the 1991 Session Laws, is,
7 repealed.
8 **SECTION 2.** This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 621
PROPOSED COMMITTEE SUBSTITUTE H621-CSST-7 [v.1]

3/27/2001 11:47:39 AM

Short Title: Repeal Cary Firemen's Supp. Retire. Fund.

(Local)

Sponsors:

Referred to:

March 15, 2001

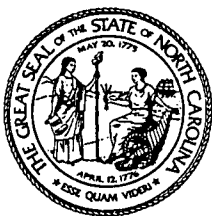
1 A BILL TO BE ENTITLED

2 AN ACT TO REPEAL THE CARY LOCAL FIREMEN'S SUPPLEMENTAL
3 RETIREMENT BENEFIT FUND.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. Chapter 159 of the 1985 Session Laws, as amended by
6 Chapter 924 of the 1989 Session Laws and by Chapter 147 of the 1991 Session Laws, is
7 repealed.8 SECTION 2. All funds remaining in the Cary Local Firemen's
9 Supplemental Retirement Benefit Fund are transferred to the Board of Trustees of the
10 Local Firemen's Relief Fund of the Town of Cary to be held and administered as
11 provided in Article 84 of Chapter 58 of the General Statutes.

12 SECTION 3. This act is effective when it becomes law.



BILL ANALYSIS

PCS FOR HOUSE BILL 621: Repeal Cary Firemen's Supp. Retire. Fund.

Committee: House Pensions and Retirement

Date: March 29, 2001

Version: PCS for 1st Edition
H621-CSST-7 [v.1]Introduced by: Representatives Weiss and
MinerSummary by: Theresa Matula
Committee Staff

SUMMARY: House Bill 621 repeals the Cary Local Firemen's Supplemental Retirement Benefit Fund.

Proposed Committee Substitute H621-CSST-7 [v.1], adds a section to address the transfer of all remaining funds in the Cary Local Firemen's Supplemental Retirement Benefit Fund.

BILL ANALYSIS:

Section 1 of this bill repeals Chapter 159 of the 1985 Session Laws, as amended by Chapter 924 of the 1989 Session Laws and by Chapter 147 of the 1991 Session Laws. These Session Laws established the Local Supplemental Retirement Benefit Fund for the Fire Department of the Town of Cary, also known as the Cary Local Firemen's Supplemental Retirement Benefit Fund. The Cary Local Firemen's Supplemental Retirement Benefit Fund is administered by a board composed of the members of the trustees of the Local Firemen's Relief Fund of the Town of Cary

Section 2 directs the transfer of all funds remaining in the Cary Local Firemen's Supplemental Retirement Benefit Fund to the Board of Trustees of the Local Firemen's Relief Fund of the Town of Cary to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes.

Section 3 establishes that this act is effective when it becomes law.



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March 28, 2001

MEMORANDUM

TO: Representative Jennifer Weiss

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on House Bill 621
Repeal of the Cary Firemen's Supplemental Pension Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, House Bill 198, March 27, 2001



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Legislative Services Office**

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March 27, 2001

Representative Jennifer Weiss
North Carolina House of Representative
Raleigh, North Carolina 27601

Re: Actuarial/Fiscal Note (Cary Local Firemen's Supplemental Retirement Benefit Fund)

Dear Representative Weiss:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: Repeal of the Cary Local Firemen's Supplemental Retirement Benefit Fund.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: The Cary Firemen's Supplemental Retirement Benefit Fund is presently financed by the transfer of all income resulting from investments of funds from the City of Cary Firemen's Local Relief Fund. The Retirement Fund presently provides supplemental retirement benefits to those retired voluntary firemen who are age 55 with 20 years of service and to those full-time firemen with 30 years of service (15 of those years with the City of Cary) and who were age 55. One share is allowed for each year of service with the maximum benefit of \$1,800 per year.

With this repeal, all funds will be transferred from the Cary Local Firemen's Supplemental Retirement Benefit Fund back to the City of Cary Firemen's Local Relief Fund to be used as allowed by G. S. 58-84-35.

Actuarial Endorsement:

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore
Fiscal Analyst
Fiscal Research Division

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chair/Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☐ Committee Substitute for

H.B. 621 A BILL TO BE ENTITLED AN ACT TO REPEAL THE CARY LOCAL FIREMEN'S SUPPLEMENTAL RETIREMENT BENEFIT FUND.

☐ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☒ With a favorable report as to committee substitute bill (#), ☐ which changes the title, unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation that the committee substitute bill #) be re-referred to the Committee on .)

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 477

#1 Committee Substitute Favorable 3/20/01

Short Title: Repeal Marion Firemen's Supp. Retire. Fund.

(Local)

Sponsors:

Referred to:

March 5, 2001

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE LOCAL FIREMEN'S RELIEF FUND OF THE CITY OF
MARION.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 26 of the 1979 Session Laws is repealed.

SECTION 2. All funds remaining in the City of Marion Supplemental
Firemen's Retirement Fund are transferred to the Board of Trustees of the City of
Marion Local Firemen's Relief Fund to be held and administered as provided in Article
84 of Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

D

HOUSE BILL 477

Committee Substitute Favorable 3/20/01

2 PROPOSED COMMITTEE SUBSTITUTE H477-PCS6187-ST-9

Short Title: Repeal Marion Firemen's Supp. Retire. Fund.

(Local)

Sponsors:

Referred to:

March 5, 2001

A BILL TO BE ENTITLED

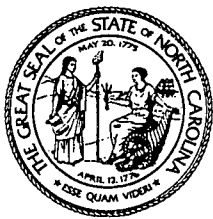
AN ACT TO REPEAL THE MARION FIREMEN'S SUPPLEMENTAL
RETIREMENT FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 26 of the 1979 Session Laws is repealed.

SECTION 2. All funds remaining in the Marion Firemen's Supplemental Retirement Fund are transferred to the Board of Trustees of the Local Firemen's Relief Fund of the City of Marion to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.



HOUSE BILL 477: Repeal Marion Firemen's Supp. Retire. Fund.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: March 29, 2001
Version: PCS for 2nd Edition
 H477-CSST-9[v.1]

Introduced by: Representative Gillespie
Summary by: Theresa Matula
 Committee Staff

SUMMARY: *House Bill 477 repeals the Marion Firemen's Supplemental Retirement Fund.*

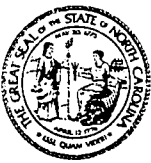
The PCS, H477-CSST-9 [v.1], corrects the fund title.

BILL ANALYSIS:

Section 1 of this bill repeals Chapter 26 of the 1979 Session Laws which provide a supplemental retirement fund for firemen in the City of Marion. The Board of Trustees of the Local Firemen's Relief Fund of the City of Marion maintain the Marion Firemen's Supplemental Retirement Fund.

Section 2 directs the transfer of all funds remaining in the Marion Firemen's Supplemental Retirement Fund to the Board of Trustees of the City of Marion Local Firemen's Relief Fund to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes.

Section 3 establishes that this act is effective when it becomes law.

**North Carolina General Assembly
Legislative Services Office**George R. Hall, Legislative Services Officer
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March 13, 2001

MEMORANDUM

TO: Representative Mitch Gillespie

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on House Bill 477

Re: Repeal of the Marion Firemen's Supplemental Pension Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Co-Chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, House Bill 477, March 12, 2001



**North Carolina General Assembly
Legislative Services Office**

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March 12, 2001

Representative Mitch Gillespie
North Carolina House of Representative
Legislative Building, Room 1201
Raleigh, North Carolina 27601

Re: Actuarial/Fiscal Note (Marion Firemen's Supplemental Retirement Fund)

Dear Representative Gillespie:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: Repeal of the Marion Firemen's Supplemental Retirement Fund.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: The Marion Firemen's Supplemental Retirement Fund is presently financed by the transfer of all funds in excess of \$50,000 from the City of Marion Firemen's Local Relief Fund. This Retirement Fund presently provides supplemental retirement benefits to those retired firemen, whether volunteer or paid, who are age 55 with 20 or more years of service. The benefit is calculated by dividing the amount of assets by the total shares with a maximum annual benefit of \$600.00.

With this repeal, all funds will be transferred from the Marion Firemen's Supplemental Retirement Fund back to the City of Marion Firemen's Local Relief Fund to be used as allowed by G. S. 58-84-35.

Actuarial Endorsement:

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore
Fiscal Analyst
Fiscal Research Division

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chair/Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

-
- ☒ Committee Substitute for
H.B. 477 A BILL TO BE ENTITLED AN ACT TO REPEAL THE LOCAL FIREMEN'S
RELIEF FUND OF THE CITY OF MARION.
- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☒ With a favorable report as to committee substitute bill (# 2), ☒ which changes the title,
unfavorable as to (original bill) (Committee Substitute Bill # /), (and recommendation
~~that the committee substitute bill #) be re-referred to the Committee on~~
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

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HOUSE BILL 604*

Short Title: Amend Charlotte Firefighters' Retirement Act.

(Local)

Sponsors: Representative Alexander.

Referred to: Pensions and Retirement.

March 14, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND THE LAW ESTABLISHING THE CHARLOTTE FIREMEN'S
RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. Section 1 of Chapter 830 of the 1991 Session Laws, as amended by Chapter 171 of the 1995 Session Laws, Chapter 640 of the 1993 Session Laws, and S.L. 1999-100, which rewrote Chapter 926 of the 1947 Session Laws, as amended, reads as rewritten:

"Section 1. Chapter 926, 1947 Session Laws, as amended, is rewritten to read:

TITLE I. PREFACE.

Section 1. Introduction. The Charlotte Firemen's Retirement System heretofore established pursuant to the provisions of Chapter 926 of the 1947 Session Laws, as amended, is hereby continued and shall hereafter be known as the Charlotte Firefighters' Retirement System. The purpose of the Charlotte Firefighters' Retirement System shall be to provide retirement, disability and survivor benefits for the uniformed employees of the Charlotte Fire Department who are entitled thereto under the provisions of this act. This act shall be officially known and may be referred to as the Charlotte Firefighters' Retirement System Act.

Sec. 2. Definitions. The following words and phrases as used in this act shall have the indicated meanings unless a different meaning is clearly required by the context.

(1) 'Accrued Benefit' means the amount of monthly retirement benefits earned by a Member computed, as of any date, on his Final Average Salary and Membership Service Credit as of such date. In no event shall the Accrued Benefit be less than the Accrued Benefit as of June 30, 1986.

(1a) 'Act' means Chapter 926 of the 1947 Session Laws, as amended.

(2) 'Actuarial Equivalent' means a benefit payable by the System that is determined by the Actuary to be equal to the basic benefit provided by

the System based on the interest rate and the mortality and other tables and assumptions adopted for such purposes by the Board of Trustees. In no event shall any Actuarial Equivalent be less than the corresponding Actuarial Equivalent as of June 30, 1987, based on the Accrued Benefit and the assumptions in effect on that date.

(3) 'Actuarial Valuation' or 'Valuation' means a determination of the normal costs, actuarial accrued liability, actuarial value of assets and related actuarial present values of the System performed by an Actuary which are based on the characteristics of the System. Such characteristics include, but are not limited to, age, service, salaries, and rate of turnover by death, disability, termination or retirement.

(3a) 'Adjustment Factor' means the cost of living adjustment factor prescribed by the Secretary of the Treasury under section 415(d) of the Code for years beginning after December 31, 1987, applied to those items and in the manner the Secretary prescribes.

(4) 'Armed Forces' means the Armed Forces of the United States of America.

(5) 'Audit' means an examination of the accounting records of the System performed by a certified public accountant or certified public accounting firm. Such examination is to determine if said records are properly maintained and to make recommendations and suggestions for better record-keeping and management.

(6) 'Beneficiary', 'Designated Beneficiary', or 'Surviving Beneficiary' means any person, or persons, who is in receipt of, or who is designated in writing to receive, a retirement benefit or other benefit as provided in this act.

(7) 'Board of Trustees', 'Board' or 'Trustees' means the Board of Trustees of the Charlotte Firefighters' Retirement System, as specified in Section 29, or any individual Member thereof.

(8) 'City' means the City of Charlotte.

(8a) 'Code' means the Internal Revenue Code of 1986, as amended.

(9) 'Compensation' means the remuneration reportable on Form W-2 earned by a Member for services performed as an employee of the Charlotte Fire Department ~~and for which contributions are made to the System prior to any reductions pursuant to sections 125, 401(k), 402(k), 402(e)(3), 414(h)(2), and 457 of the Internal Revenue Code.~~ Compensation shall include ~~compensation received during the applicable period by the Member from the City for services performed as an employee of the Charlotte Fire Department during the taxable year ending with or within the Plan Year that is required to be reported as wages on the Member's Form W-2. Compensation also includes compensation realized during the applicable period that is not currently includable in the Member's gross income by reason of the application of sections 125, 401(k), 402(a)(8), 402(h)(1)(B), 403(b), or 457 of the~~

Code payments for unused sick and vacation days, longevity payments, bonus payments, and merit increases. For the purpose of calculating a Member's Final Average Salary, ~~any lump sum payments for which contributions were made to the System, such as longevity pay and bonus payments, and received by said Member within two consecutive years of Membership Service shall be apportioned over the previous Membership Service for which the payment(s) was earned.~~ (i) payments for unused sick and vacation days shall be included as Compensation to the extent that the vacation and sick days for which payments are made could have accrued during two Plan Years of the Member's last five years of Membership Service, and (ii) payments for longevity shall be included as Compensation to the extent such payments were made during two Plan Years of the Member's last five years of Membership Service.

In addition to the other applicable limitations set forth in this Act, and notwithstanding any other provision of this Act to the contrary, for Plan Years beginning on or after January 1, 1996, the annual Compensation of each Member taken into account under the Act shall not exceed the OBRA '93 annual compensation limit. The OBRA '93 annual compensation limit is one hundred fifty thousand dollars (\$150,000), as adjusted by the Commissioner for increases in the cost of living in accordance with section 401(a)(17)(B) of the Internal Revenue Code. The cost of living adjustment in effect for a calendar year applies to any period not exceeding 12 months over which Compensation is determined ('the determination period') beginning in each calendar year. If a determination period consists of fewer than 12 months, the OBRA '93 annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12. If Compensation for any prior determination period is taken into account in determining a Member's benefits accruing in the current Plan Year, the Compensation for that prior determination period is subject to the OBRA '93 annual compensation limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first Plan Year beginning on or after January 1, 1996, the OBRA '93 annual compensation limit is one hundred fifty thousand dollars (\$150,000).

(9a) 'Death Benefit Recipient' means any person who is in receipt of benefits payable as specified in Section 21.

(10) 'Effective Date' of this amended and restated act means ~~July 1, 1999,~~ July 1, 2001, unless otherwise specified herein.

(11) 'Final Average Salary' means the monthly average Compensation received by a Member during any two consecutive ~~years~~ Plan Years of Membership Service which produces the highest average and is

1 contained within the Member's last five years of Membership Service.
2 If a Member has less than two years of Membership Service, his Final
3 Average Salary shall mean the monthly average Compensation for his
4 total Membership Service. ~~Effective July 1, 1989, if the Member's~~
5 ~~monthly benefit, as calculated pursuant to Section 17(a) of this act,~~
6 ~~exceeds one hundred percent (100%) of his Final Average Salary, as~~
7 ~~defined by this subdivision, then 'Final Average Salary' means the~~
8 ~~monthly average Compensation received by a Member during any~~
9 ~~three consecutive years of Membership Service during which the~~
10 ~~Member was an active Member of the Retirement System and had the~~
11 ~~greatest aggregate Compensation from the City. If a Member has fewer~~
12 ~~than three years of Membership Service, his Final Average Salary shall~~
13 ~~mean the monthly average Compensation for his total Membership~~
14 ~~Service.~~ For the purpose of calculating a Member's Final Average
15 Salary, (i) payments for unused sick and vacation days shall be
16 included as Compensation to the extent that the vacation and sick days
17 for which payments are made could have accrued during two Plan
18 Years of the Member's last five years of Membership Service, and (ii)
19 payments for longevity shall be included as Compensation to the
20 extent such payments were made during two Plan Years of the
21 Member's last five years of Membership Service.

- 22 (12) 'He', 'Him', 'His', and any other pronouns and terms shall be used when
23 referring to both male and female Members and/or Beneficiaries of
24 this System, and vice versa.
- 25 (13) 'Investment Fiduciary' means any person, or persons, who exercises
26 any discretionary authority or control in the investment of the System's
27 assets and/or renders investment advice for a fee to the System.
- 28 (14) 'Majority Vote' means that number of votes which is more than fifty
29 percent (50%) of the System Members casting ballots.
- 30 (15) 'Member' means an employee of the Charlotte Fire Department who is
31 subject to the provisions of the Civil Service Act contained in Chapter
32 333 of the 1969 Session Laws as amended, and, in addition, shall
33 include the chief of the fire department where the chief was subject to
34 the provisions of the Civil Service Act immediately prior to being
35 appointed fire chief, and any probationary employee or officer of the
36 fire department under the Civil Service Act.
- 37 (16) 'Membership Service Credit' or 'Membership Service' means the
38 amount of service credited to a Member as provided in this act to
39 determine what, if any, benefits are due him.
- 40 (17) 'Participant' means any Member, Retiree, Beneficiary in receipt of
41 benefits or a former Member with a deferred Accrued Benefit.
- 42 (17a) 'Qualified Participant' means a Participant who is in a defined benefit
43 plan that is maintained by a State or a political subdivision thereof; and

- 1 a. Who has at least 15 years of Membership Service Credit as a
2 full-time employee of any police department or fire department
3 that is organized and operated by the State or a political
4 subdivision, that maintains such a defined benefit plan; or
5 b. Who is a member of the armed forces of the United States.
6 (18) 'Retiree' means any person who retires with a retirement benefit
7 payable by the System.
8 (19) 'Retirement System' or 'System' means the Charlotte Firefighters'
9 Retirement System.
10 (20) 'Total Contributions' means the sum of the amounts paid by or on
11 behalf of a Member and credited to his individual account by the
12 System.
13 (20a) 'Trustee' means any individual member of the Board of Trustees of the
14 Charlotte Firefighters' Retirement System, as specified in Section 29 of
15 this act.
16 (21) 'Year,' 'Plan Year,' or 'Limitation Year' means the twelve months from
17 July 1 through June 30.

18 **TITLE II. MEMBERSHIP SERVICE CREDIT.**

19 Sec. 3. **General.** A Member of this Retirement System shall receive Membership
20 Service Credit for all periods of employment with the Charlotte Fire Department for
21 which contributions have been paid to, and not subsequently refunded by, the Charlotte
22 Firefighters' Retirement System. In no case shall more than one year of Membership
23 Service Credit be credited a Member for any 12 calendar month period of time.

24 Sec. 4. **Periods of Workers' Compensation & Accident and Sickness, Family**
25 **Medical Leave Act, and Long-Term Disability Benefits.** Membership Service Credit
26 shall be credited to a Member for any periods of workers' compensation, accident and
27 sickness, Family Medical Leave Act, or long-term disability benefits for which said
28 Member contributes to the Charlotte Firefighters' Retirement System an amount equal to
29 the Compensation the Member would have earned multiplied by ~~the sum of the then~~
30 ~~current social security contribution rate plus five percent (5%) twelve and sixty-five~~
31 hundredths percent (12.65%). Such contributions must be made within a 12 calendar
32 month period from and after the date the Member returns to employment with the
33 Charlotte Fire Department and prior to the Member's termination of membership or
34 retirement.

35 Sec. 5. **Reinstatement of Membership Service Credit Previously Forfeited.**
36 Membership Service Credit shall be credited for previous Membership Service for a
37 Member who is reemployed by the Charlotte Fire Department within five years of the
38 termination date of his previous employment, and provided the Member has not
39 received reimbursement of his contributions pursuant to the provisions of this act.

40 Sec. 6. **Return from Active Military Duty.** Membership Service Credit shall be
41 credited to any Member who entered the Armed Forces of the United States of America
42 during World War I, World War II, the Korean War, any period of national emergency
43 conditions, or entered the Armed Forces at any time through the operation of the
44 compulsory military service law of the United States of America, upon the return to

1 membership employment with the Charlotte Fire Department. Such Membership
2 Service Credit shall include the period of active military service and any period after
3 discharge or release from active duty from the Armed Forces for which his
4 reemployment rights are guaranteed by law unless otherwise specified in this act.
5 Notwithstanding any other provision of this section, effective December 12, 1994, this
6 act shall at all times be construed and enforced according to the requirements of the
7 Uniformed Services Employment and Reemployment Rights Act of 1994.

8 **Sec. 7. Purchase of Membership Service Credit for Prior Active Military Duty.**
9 Effective July 1, 1999, Membership Service Credit for prior active military duty may be
10 purchased upon the completion of five years of Membership Service Credit by any
11 Member who served on active duty in the Armed Forces of the United States of
12 America prior to his employment with the Charlotte Fire Department. Such
13 Membership Credit shall be purchased by the Member before termination of
14 membership or retirement. The amount of Membership Service Credit that may be
15 purchased by a Member will be equal to the actual active military duty by the Member
16 not to exceed five years and shall be credited upon the payment of the required
17 contributions as determined by the Administrator, provided that the Membership
18 Service to be so credited shall not be credited in any other retirement system, except the
19 national guard or any reserve component of the Armed Forces of the United States. The
20 required contributions shall be an amount equal to the annualized Compensation rate the
21 Member earned when he first entered membership in the Retirement System, multiplied
22 by the sum of the Member and the City of Charlotte contribution rates in effect at the
23 time when he first entered membership in the Retirement System, increased by five
24 percent (5%) compounded per annum from the date of membership to the date of the
25 payment of the required contributions and multiplied by the number of years and days
26 of Membership Service to be credited.

27 **Sec. 8. Accumulated Sick Leave and Vacation at Retirement.** Membership
28 Service Credit shall be credited to a Member for the balance of any unpaid sick leave
29 and/or unpaid vacation at the time of his retirement, excluding any sick leave and/or
30 vacation that was converted to a qualified deferred compensation program as defined by
31 the City. Such Membership Service Credit shall be determined by the Administrator
32 and shall be proportional based on the normal work schedule of the Member. Such
33 Membership Service Credit cannot be used to meet the minimum qualifications for a
34 disability retirement benefit, vested benefit or early retirement benefit, but may be used
35 to meet the minimum qualifications for a service retirement benefit.

36 **Sec. 9. Determination by Board of Trustees.** In any case of doubt as to the period
37 of Membership Service Credit to be so credited any Member, the Board of Trustees
38 shall have final authority to determine such period.

39 **TITLE III. TERMINATION OF MEMBERSHIP.**

40 **Sec. 10. Members With Less Than Five Years of Membership Service Credit.**
41 (a) If a Member with less than five years of Membership Service Credit with this
42 Retirement System shall cease employment with the Charlotte Fire Department,
43 whether voluntary or involuntary, said former Member shall thereupon cease
44 membership and shall be entitled to reimbursement of the contributions made by the

1 Member. The former Member shall not be entitled to any contributions made on the
2 former Member's behalf by the City of Charlotte under the provisions of Section 25 of
3 this act or to any interest which has accrued on his contributions or any contributions
4 made on the Member's behalf. A former Member desiring reimbursement of said
5 contributions must complete and file the form 'Application for Refund of Accumulated
6 Contributions' with the Administrator within five years of the termination date of his
7 employment. Should a former Member fail to complete and file said form with the
8 Administrator within such five years, the former Member shall receive reimbursement
9 of said contributions as provided in this act.

10 (b) If such a former Member dies within five years after terminating his
11 employment prior to receiving reimbursement of contributions pursuant to subsection
12 (a) of this section, his Designated Beneficiary(s) on file with the Retirement System or
13 his personal representative in the absence of any Designated Beneficiary, may apply for
14 reimbursement of contributions pursuant to subsection (a) of this section and must file
15 such application with the Administrator within five years of the date of death of the
16 former Member or the funds will be paid to the Designated Beneficiary, if living, or
17 otherwise to the former Member's estate.

18 **Sec. 11. Members With Five or More Years of Membership Service Credit.** (a)
19 Effective July 1, 1989, if a Member with five or more years of Membership Service
20 Credit with this Retirement System ceases employment with the Charlotte Fire
21 Department, whether voluntarily or involuntarily, the Member shall receive his Accrued
22 Benefit and defer this benefit until the Participant reaches 60 years of age. The Accrued
23 Benefit shall be calculated pursuant to the provisions of Sections 15 and 17 of this act in
24 effect on the last day of work by said Participant. If such Participant dies before
25 applying for his deferred benefits and attaining age 60 years, reimbursement of the
26 Participant's contributions may be accomplished in the same manner and in all respects
27 as in Section 10 of this act.

28 (b) As an alternative to the provisions of subsection (a) of this section, if a
29 Member with five or more years of Membership Service Credit with this Retirement
30 System shall cease employment with the Charlotte Fire Department, whether voluntary
31 or involuntary, said Member shall thereupon cease membership and may elect to receive
32 reimbursement of his contributions ~~in the same manner and in all respects as in Section~~
33 ~~10 of this act, plus interest compounded annually at a rate of four percent (4%) per year,~~
34 with the right reserved to the Board of Trustees to set a different rate from time to time.
35 The former Member shall not be entitled to any contributions made on the Member's
36 behalf by the City of Charlotte under the provision of Section 25 of this Act or to any
37 interest on such contributions.

38 **Sec. 12. Failure to Return From Active Military Duty.** Should any Member of
39 this Retirement System who entered the Armed Forces of the United States of America
40 pursuant to the provisions of Section 6 of this act fail to return to employment with the
41 Charlotte Fire Department within the period for which his reemployment rights are
42 guaranteed by law, said Member shall thereupon cease membership and shall be entitled
43 to a deferred benefit or reimbursement of his contributions in the same manner and in
44 all respects as provided for in Section 10 or 11 of this act, whichever is applicable.

Such former Member shall not receive Membership Service Credit for the period of active military duty or any period after discharge or release from active duty from the Armed Forces for which his reemployment rights had been guaranteed by law.

Sec. 13. Repealed by Section 7 of Chapter 248 of the 1989 Session Laws.

Sec. 13.1. **Direct Rollover of Eligible Rollover Distributions.** (a) This Section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the plan administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

(b) Definitions.

(1) Eligible rollover distribution. An eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of 10 years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; any hardship distribution described in section 401(k)(2)(B)(i)(IV); and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(2) Eligible retirement plan. An eligible retirement plan is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity.

(3) Distributee. A distributee includes an employee or former employee. In addition, the employee's or former employee's surviving spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse.

(4) Direct rollover. A direct rollover is a payment by the plan to the eligible retirement plan specified by the distributee.

Sec. 14. **Retirement of Member.** Upon his retirement pursuant to the provisions of this act, a Member shall thereupon cease membership in the Charlotte Firefighters' Retirement System.

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- (1) The age and Membership Service Credit requirements for service retirement are as follows:
 - a. Any age and 30 or more years of Membership Service Credit;
 - b. Age 50 years or older and 25 or more, but less than 30 years of Membership Service Credit; or
 - c. Effective July 1, 1989, age 60 years or older and 5 or more, but fewer than 25 years of Membership Service Credit.
- (2) Upon a Member's service retirement, he shall be paid a benefit as provided in Section 17 of this act.

Sec. 17. (a) Effective July 1, 1998, upon retirement pursuant to the provisions of section 15 of this act, a Member shall receive a monthly benefit equal to two and six-tenths percent (2.6%) of his Final Average Salary multiplied by his Membership Service Credit, not to exceed the Final Average Salary limits imposed by section 415 of the Internal Revenue Code, as amended, but not less than nine hundred two dollars and twenty-five cents (\$902.75). The benefit payable pursuant to this subsection shall be referred to as the basic benefit.

(c) Option 1. Benefit for 10 Years Certain and Life Thereafter. A Retiree shall receive a reduced basic benefit payable monthly throughout his life with the provision that if he dies before he has received 120 monthly payments, the payments will continue for the remainder of the 120-month period to such Beneficiary, if living, as the Retiree shall have nominated by written designation duly executed and filed with the Board of Trustees.

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1 Retiree shall have nominated by written designation duly executed and filed with the
2 Board of Trustees prior to retirement but not thereafter.

3 (e) Option 3. 75% Joint and Survivor Benefit. A Retiree shall receive a reduced
4 basic benefit payable monthly throughout his life and upon his death seventy-five
5 percent (75%) of his reduced monthly benefit shall continue throughout the life of such
6 Beneficiary, if living, as the Retiree shall have nominated by written designation duly
7 executed and filed with the Board of Trustees prior to retirement but not thereafter.

8 (f) Option 4. 66 2/3% Joint and Survivor Benefit. A Retiree shall receive a
9 reduced basic benefit payable monthly throughout his life and upon his death sixty-six
10 and two-thirds percent (66 2/3%) of his reduced monthly benefit shall continue
11 throughout the life of such Beneficiary, if living, as the Retiree shall have nominated by
12 written designation duly executed and filed with the Board of Trustees prior to
13 retirement but not thereafter.

14 (g) Option 5. 50% Joint and Survivor Benefit. A Retiree shall receive a reduced
15 basic benefit payable monthly throughout his life and upon his death fifty percent (50%)
16 of his reduced monthly benefit shall continue throughout the life of such Beneficiary, if
17 living, as the Retiree shall have nominated by written designation duly executed and
18 filed with the Board of Trustees prior to retirement but not thereafter.

19 (h) Option 6. A Retiree may elect any of Options 2 through 5 with the added
20 provision that in the event the Designated Beneficiary predeceases the Retiree, the
21 monthly benefit payable to the Retiree after the Beneficiary's death shall be equal to the
22 basic benefit. Such election will result in a benefit that is further reduced than the
23 corresponding benefit payable under Options 2 through 5 if this Option 6 has not been
24 elected. The intent of this additional reduction is to support the additional cost of this
25 election.

26 (i) In the event that a Retiree who named his spouse as Beneficiary in
27 accordance with the provisions of Options 1 through 6 and shall subsequently become
28 divorced from the named Beneficiary, the Retiree may then elect a life annuity which
29 shall be the Actuarial Equivalent of the value of all future benefit payments under the
30 option then in effect upon written request to the Board of Trustees provided such
31 request is not inconsistent with the terms of the divorce decree. It is the Retiree's
32 responsibility to provide all pertinent documentation.

33 **Sec. 18. Early Retirement.** A Member may upon written application through the
34 Administrator to the Board of Trustees set forth an effective date of not less than 30
35 days nor more than 90 days subsequent to the execution and filing thereof that he
36 desires to be retired, provided that he has acquired 25 or more, but less than 30 years of
37 Membership Service Credit and is less than age 50 years. Upon a Member's early
38 retirement, he shall receive a benefit as provided in Section 17, except such benefit shall
39 be reduced by twenty-five one-hundredths of one percent (.25%) for each whole month
40 the early retirement date precedes the Member's attainment of age 50 years.

41 **Sec. 19. Disability Retirement in the Line of Duty.**

42 (a) An 'Application for Disability Retirement in the Line of Duty' shall be filed
43 by the Member or his department head with the Administrator, provided that the

1 Member has applied for and been granted workers' compensation benefits on account of
2 this disability.

3 (b) An 'Application for Disability Retirement in the Line of Duty' shall be
4 administered pursuant to the Disability Regulations adopted by the Board of Trustees
5 from time to time and approved by the City of Charlotte and administered in a uniform
6 and nondiscriminatory manner. The Administrator shall request the Board of Trustees to
7 conduct a hearing on the Application for Disability Retirement in the Line of Duty
8 pursuant to the provisions of the Disability Regulations. The Member or any person
9 filing on the Member's behalf or the Administrator may appeal from any order of the
10 Board to the Superior Court of Mecklenburg County, within 10 days of the order. The
11 appeal to the Superior Court shall be upon the record of the proceeding before the Board
12 at the hearing.

13 (c) Effective July 1, 1999, upon retirement pursuant to the provisions of this
14 section, a Member shall receive a monthly benefit equal to the greater of seventy-eight
15 percent (78%) of Final Average Salary or two and six-tenths percent (2.6%) of Final
16 Average Salary multiplied by his Membership Service Credit, not to exceed the Final
17 Average Salary limits imposed by section 415 of the Internal Revenue Code, as
18 amended, but not less than nine hundred two dollars and seventy-five cents (\$902.75)
19 per month. Effective July 1, 1988, prior to his retirement pursuant to the provisions of
20 this Section, but not thereafter, a Member may elect to receive an Actuarial Equivalent,
21 computed as of the effective date of his retirement, of his monthly amount payable
22 throughout his life, and nominate a Beneficiary in accordance with the provisions of the
23 Option 5, Fifty Percent (50%) Joint and Survivor Benefit, as set forth in subsection (g)
24 of Section 17. The Actuarial Equivalent for all Members retiring pursuant to this
25 Section shall be computed in accordance with the Unisex Mortality Table for 1984 set
26 forward one year in age, with interest at six percent (6%). Benefits payable under this
27 Section shall be effective on the date of approval by the Board of Trustees or upon
28 exhaustion of workers' compensation benefits, whichever is later. Also, disability
29 retirement benefits payable under this Section may be adjusted by the disability
30 retirement regulations adopted pursuant to the requirements contained in subsection (b)
31 of this Section. A Retiree receiving disability retirement benefits shall revert to a service
32 retirement as specified in Section 15 and shall receive the greater of such disability
33 retirement benefits or his Accrued Benefit as determined as of the last date of active
34 employment with the Charlotte Fire Department at such time as the Retiree's attained
35 age and Membership Service Credit meet the requirements for a service retirement.

36 **Sec. 20. Disability Retirement not in the Line of Duty.**

37 (a) An 'Application for Disability Retirement not in the Line of Duty' shall be
38 filed by a Member or his department head with the Administrator, provided that the
39 Member has 10 or more years of Membership Service Credit and has applied for and
40 been granted accident and sickness benefits on account of the disability.

41 (b) An 'Application for Disability Retirement not in the Line of Duty' shall be
42 administered pursuant to rules and regulations adopted by the Board of Trustees from
43 time to time and approved by the City of Charlotte and administered in a uniform and
44 nondiscriminatory manner. The Administrator shall request the Board of Trustees to

1 conduct a hearing on the Application for Disability Retirement not in the Line of Duty
2 pursuant to the provisions of the Disability Regulations. The Member or any person
3 filing on the Member's behalf or the Administrator may appeal from any order of the
4 Board to the Superior Court of Mecklenburg County by giving notice of appeal, in
5 writing, to the Superior Court, within 10 days of the order. The appeal to the Superior
6 Court shall be upon the record of the proceeding before the Board at the hearing.

7 (c) Effective July 1, 1999, upon retirement pursuant to the provisions of this
8 section, a Member shall receive a monthly benefit equal to thirty-nine percent (39%) of
9 his Final Average Salary, plus one and ninety-five hundredths percent (1.95%) of his
10 Final Average Salary multiplied by the Membership Service Credit in excess of 10
11 years, not to exceed the Final Average Salary limits imposed by section 415 of the
12 Internal Revenue Code, as amended, but not less than nine hundred two dollars and
13 seventy-five cents (\$902.75) per month. Effective July 1, 1988, prior to his retirement
14 pursuant to the provisions of this section, but not thereafter, a Member may elect to
15 receive an Actuarial Equivalent, computed as of the effective date of his retirement, of
16 his monthly amount payable throughout his life, and nominate a Beneficiary in
17 accordance with the provisions of the Option 5, Fifty Percent (50%) Joint and Survivor
18 Benefit, as set forth in subsection (g) of Section 17. The Actuarial Equivalent for all
19 Members retiring pursuant to this section shall be computed in accordance with the
20 Unisex Mortality Table for 1984 set forward one year in age, with interest at six percent
21 (6%). Benefits payable under this section shall be effective on the date of approval by
22 the Board of Trustees. Also, disability retirement benefits payable under this Section
23 may be adjusted by the disability retirement regulations adopted pursuant to the
24 requirements contained in subsection (b) of this Section. A Retiree receiving disability
25 retirement benefits shall revert to a service retirement as specified in Section 15 and
26 shall receive the greater of such disability retirement benefits or his Accrued Benefit as
27 determined as of the last date of active employment with the Charlotte Fire Department
28 at such time as the Retiree's attained age and Membership Service Credit meet the
29 requirements for a service retirement.

30 **Sec. 21. Death Benefits.**

31 (a) In the event of the death of any Member of the System prior to his effective
32 date of retirement pursuant to the provisions of Sections 15, 16, 18, 19, or 20 of this act,
33 his Designated Beneficiary(s) on file with the Retirement System, or his personal
34 representative in the absence of any Designated Beneficiary, shall be entitled to
35 reimbursement of the Total Contributions by him or on his behalf and contributions by
36 City of Charlotte to the System on his behalf; plus, ~~two and five tenths percent (2.5%)~~
37 interest compounded annually at the rate of four percent (4%) per year on the
38 contribution balance at the beginning of each Plan Year in which the Participant
39 contributed or in which contributions were made on his behalf. The Board of Trustees
40 has the right to set a different interest rate from time to time. ~~However, the two and five-~~
41 ~~tenths percent (2.5%) interest~~ Interest shall not apply to death benefits occurring before
42 July 1, 1986. Such Beneficiary(s) or personal representative must complete and file the
43 form 'Application for Survivor Death Benefits' with the Administrator to receive
44 reimbursement. As an option, a Beneficiary may elect to receive an annuity equal to

1 and in lieu of a lump sum distribution by so designating on the above form. Effective
2 July 1, 1989, as an option, a surviving spouse of a deceased Member who was eligible
3 for a service or early retirement benefit on the date preceding death may elect to receive
4 an Actuarial Equivalent computed as of the date preceding death in the same manner as
5 if the deceased member had retired and elected a reduced monthly amount payable
6 throughout his life, and nominated the surviving spouse as his beneficiary in accordance
7 with the provisions of Option 4, Sixty-Six and Two-Thirds Percent (66 2/3%) Joint and
8 Survivor benefit, as set forth in subsection (f) of Section 17. The Actuarial Equivalent
9 for all benefits payable pursuant to this section shall be computed in accordance with
10 the Unisex Mortality Table for 1984 set forward one year in age, with interest at six
11 percent (6%).

12 (b) In the event of the death of a Retiree of this System before he has received
13 monthly benefit payments equal to the present value on the effective date of retirement
14 of the Total Contributions by him or on his behalf and contributions by the City of
15 Charlotte to the System on his behalf; plus, ~~two and five tenths percent (2.5%)~~ interest
16 compounded annually at the rate applicable to subsection (a) of this section on the
17 contribution balance at the beginning of each Plan Year in which the Participant
18 contributed or in which contributions were made on his behalf and provided a monthly
19 benefit is not payable in accordance with Section 17, the Designated Beneficiary(s) or
20 estate of the retiree shall be entitled to an amount equal to the difference between such
21 contributions, plus interest, and the sum of the monthly benefit payments received by
22 the retiree. However, ~~the two and five tenths percent (2.5%)~~ interest shall not apply to
23 death benefits occurring before July 1, 1986. Such Beneficiary(s) or personal
24 representative must complete and file the form 'Application for Survivor Death Benefits'
25 with the Administrator to receive reimbursement.

26 Sec. 22. **Coordination of Benefits.** The Board of Trustees shall reduce the amount
27 of any benefits payable under the provisions of this section by any amount of benefits
28 being concurrently paid to a Retiree by or on behalf of the City of Charlotte.

29 Sec. 23. **Post-Retirement Adjustments.**

30 (a) The retirement benefits payable to a Retiree pursuant to the provisions of this
31 act may be adjusted at the discretion of the Board of Trustees based upon the prevailing
32 economic and funding conditions. Such adjustment shall not be paid until such
33 adjustment is ratified by the City of Charlotte.

34 (b) ~~Effective July 1, 1989,~~ Effective July 1, 2001, the Board of Trustees shall make an
35 annual bonus payment in the month of January ~~following an annual actuarial valuation~~
36 ~~when the actuary determines that the actual payroll contributions exceed the required~~
37 ~~contributions adjusted for any actuarial gains and losses that may have occurred during~~
38 ~~the preceding year. The lesser of fifty percent (50%) of the excess amount determined~~
39 ~~by the actuary or upon receipt of a fiscal note prepared by the actuary demonstrating that~~
40 ~~the Retirement System could support such payment in an actuarially sound manner.~~
41 Such fiscal note, at a minimum, shall evaluate the effect that granting the bonus
42 payment will have on the amortization period, the level of unfunded accrued liabilities,
43 and the annual required contributions. The total amount to be distributed shall be
44 recommended by the actuary but in all events shall not exceed the aggregate monthly

1 ~~benefit~~ benefits of the Retirees eligible for the ~~bonus shall be distributed.~~ bonus. A
2 Retiree who has been retired for at least one year as of December 31, preceding
3 distribution of the bonus, shall receive a bonus that is determined by the Administrator
4 as proportional of the Retiree's monthly benefit to the aggregate monthly benefits of all
5 Retirees eligible for the bonus.

6 (b1) Effective July 1, 1998, a Member who retired prior to July 1, 1989, shall
7 receive an adjustment to the annual benefit equivalent to eight and thirty-three one
8 hundredths percent (8.33%), which shall result in a monthly benefit of not less than nine
9 hundred two dollars and seventy-five cents (\$902.75) per month. Effective July 1, 1998,
10 a Member who retired pursuant to a disability retirement after July 1, 1989, shall receive
11 an adjustment to the annual benefit equivalent to eight and thirty-three one hundredths
12 percent (8.33%) through July 1, 1999, which shall result in a monthly benefit of not less
13 than nine hundred two dollars and seventy-five cents (\$902.75) per month.

14 (c) Effective July 1, 1994, the provisions of this section shall apply to surviving
15 beneficiaries and death benefit recipients receiving benefits from the Charlotte
16 Firefighters' Retirement System.

17 TITLE V. METHOD OF FINANCING.

18 Sec. 24. **Member Contributions.** Each Member shall contribute to the Charlotte
19 Firefighters' Retirement System and the City of Charlotte shall cause to be deducted
20 from each and every payroll of such Member, an amount equal to the Member's
21 Compensation multiplied by ~~the sum of the then current social security contribution rate~~
22 plus five percent (5%). twelve and sixty-five hundredths percent (12.65%).

23 Notwithstanding any provision of this act to the contrary, effective July 1, 1983, the
24 City of Charlotte, as an employer, pursuant to the provisions of Section 414(h)(2) of the
25 Internal Revenue Code of 1986, as amended from time to time, may elect to pick up and
26 pay the contributions that would be payable by the Members of the Retirement System
27 under this section with respect to the service of the Members after June 30, 1983.

28 The Members' contributions picked up by the City of Charlotte shall be designated
29 for all purposes of the Retirement System as Member contributions, except for the
30 determination of tax upon a distribution from the Retirement System. These
31 contributions shall be credited to the fund created by this act accumulated within the
32 fund in a Member's account that shall be separately established for the purpose of
33 accounting for picked-up contributions. Member contributions picked up by the City of
34 Charlotte shall be payable from the same source of funds used for the payment of
35 Compensation to a Member. A deduction shall be made from a Member's Compensation
36 equal to the amount of his contributions picked up by the City of Charlotte. This
37 deduction, however, shall not reduce his Compensation for purposes of the Retirement
38 System. Picked-up contributions shall be transmitted to the Retirement System.

39 Sec. 25. **City of Charlotte Contributions.** (a) The City of Charlotte shall
40 contribute to the Charlotte Firefighters' Retirement System an amount equal to the
41 Member's Compensation multiplied by ~~the sum of the then current social security~~
42 contribution rate plus five percent (5%); twelve and sixty-five hundredths percent
43 (12.65%) for each and every payroll of such Member.

(b) Should any Member of this Retirement System enter the Armed Forces of the United States of America, the City of Charlotte shall contribute to the Charlotte Firefighters' Retirement System for each and every payroll an amount equal to the Compensation such Member would have earned based upon the last pay grade with the Fire Department multiplied by the contribution rate established pursuant to subsection (a) of this section for a period not to exceed the lesser of the Member's actual period of active military duty or five years.

(c) Should any Member of the Retirement System enter the Armed Forces of the United States of America, upon approval by the City Council, the City of Charlotte by and on behalf of such Member may contribute an amount equal to, but not to exceed, the Compensation such Member would have earned based upon the last pay grade with the Fire Department multiplied by the contribution rate established pursuant to Section 24 of this act. Any contributions by and on behalf of such Member shall inure to the benefit of such Member as though made by such Member under the provisions of this act unless otherwise specified in this act.

(c1) Should any Member of the Retirement System contribute an amount pursuant to Section 4 for the purpose of receiving Membership Service Credit for any period of benefits under the federal Family Medical Leave Act, the City of Charlotte shall contribute to the Charlotte Firefighters' Retirement System an amount equal to the Compensation that Member would have earned multiplied by the ~~then-current social security contribution rate plus five percent (5%)~~ contribution rate established in Section 24 of this act.

(d) In addition thereto, the City Council may, within its discretion and upon the recommendation of the Board of Trustees, appropriate funds necessary to provide a cost of living increase to the Retirees of the System.

Sec. 26. **Other.** Any other contributions by or on the behalf of any Member or the City of Charlotte pursuant to the provisions of this act, shall be received by the Charlotte Firefighters' Retirement System.

TITLE VI. ADMINISTRATION BY BOARD OF TRUSTEES.

Sec. 27. **General.** The Board of Trustees heretofore established is hereby continued. The general administration, management and responsibility for the proper operation of the Retirement System and for construing and making effective the provisions of this act are vested in the Board of Trustees.

Sec. 28. **Body Politic and Corporate.** The Board of Trustees shall be a body politic and corporate under the name of the Board of Trustees of the Charlotte Firefighters' Retirement System and as a body politic and corporate shall have the right to sue and be sued, shall have perpetual succession and a common seal, and in said corporate name shall be able and capable in law to take, receive, demand and possess all kinds of property hereinafter specified, and to bargain, sell, grant, transfer or dispose of all such property as it may lawfully acquire. All such property owned or acquired by said body politic and corporate shall be exempt from all taxes imposed by the State or any political subdivision thereof, specifically, but not limited to, income, license, machinery, franchise and sales taxes. In addition, the Board of Trustees as a body politic and corporate may purchase and maintain such insurance policy or policies as

1 may be necessary for the protection of the System, the System's assets, and trustees for
2 acts performed by them as trustees, excluding malfeasance. All expenses for the
3 purchase or maintenance of insurance shall be borne by the System.

4 **Sec. 29. Board of Trustees.** (a) The Board of Trustees shall consist of 11 Trustees,
5 as follows: (i) City Manager, or some other City department head or employee as duly
6 designated by the City Manager; (ii) City Finance Director, or a deputy finance director
7 as duly designated by the City Finance Director; (iii) City Treasurer; (iv) a Chairman of
8 the Board and three Trustees to represent the public and who are residents of
9 Mecklenburg County and who are appointed by the Resident Judge of the Superior
10 Court of Mecklenburg County and who shall hold office for a period of three years or
11 until their successor shall have been appointed and been qualified; (v) three Members of
12 the Retirement System, each of whom shall be elected by a vote of the Members of the
13 Retirement System for a term of three years, pursuant to the Charlotte Firefighters'
14 Retirement System Election Regulation; and (vi) one Retiree of the Retirement System
15 to be elected by a majority vote of the retirees of the Retirement System for a term of
16 three years, pursuant to the Charlotte Firefighters' Retirement System Election
17 Regulation. The terms of office for elected Member Trustees and, effective July 1,
18 1989, for appointed Trustees, shall be graduated so that no more than three Trustees'
19 terms shall expire each year. Any Member shall be eligible to succeed himself as a
20 Trustee.

21 (b) **Conflict of Interest.** No trustee, chairman, or other officer or employee of the
22 Charlotte Firefighters' Retirement System shall directly or indirectly become an
23 independent contractor for work done by, or on behalf of, the System, or become
24 directly or indirectly financially interested in, or receive profits from any purchase,
25 contract, or association by or with the System.

26 **Sec. 30. Election of Member Trustees.** The elections of the Member Trustees as
27 provided for in Subsection 29(a) and the Retiree Trustee as provided for in Subsection
28 29(a) shall be administered in accordance with rules and regulations adopted by the
29 Board of Trustees from time to time.

30 **Sec. 31. Oath of Office.** An oath of office shall be administered to the Chairman of
31 the Board and each Trustee prior to their assumption of duties with the Board of
32 Trustees. The oath of office shall be administered by the Mayor only after the Trustee
33 having first qualified and within 10 days after having been appointed or elected. The
34 Chairman of the Board and each Trustee shall swear to diligently and honestly
35 administer the affairs of said Board and that he will not knowingly violate or willfully
36 permit to be violated any of the provisions of the law applicable to the Retirement
37 System. Such oath of office shall be subscribed to by the Member making it, and
38 certified by the officer by whom it is taken, and immediately filed in the office of the
39 City Clerk.

40 **Sec. 32. Vacancy on Board of Trustees.** A vacancy on the Board of Trustees shall
41 be deemed to have occurred for any or all of the following reasons:

42 (a) In the event that an elected Trustee of the Board shall make application for
43 benefits under this act he shall first submit a written notice to the Chairman of the Board
44 disqualifying himself from his trusteeship.

(b) A vacancy shall be deemed to have occurred if a Trustee or the Chairman fails to attend any three consecutive meetings of the Board without prior notification unless excused for cause by the Trustees attending said meetings.

(c) A vacancy shall be deemed to have occurred if a Trustee or the Chairman should die.

(c1) A vacancy shall be deemed to have occurred if a Trustee or the Chairman should fail to satisfy the classification requirements in Subsection 29(a) of this act.

(d) If a Trustee shall deem himself incapable of fulfilling his Board obligations for any reason or if any condition exists that renders the Trustee disqualified, the Trustee shall submit a written notice to the Chairman disqualifying himself from his trusteeship. If the Chairman shall deem himself to be disqualified for any of the foregoing reasons, he shall submit written notice to the Resident Judge of the Superior Court of Mecklenburg County.

(e) If a vacancy shall occur pursuant to the provisions of subsections (a) through (d) of this section, the vacancy shall be filled within 90 days after the date of the vacancy, for the unexpired portion of the term, for the same classification and in the same manner as the position was previously filled.

Sec. 33. Compensation of Trustees. The members of the Board of Trustees of the Charlotte Firefighters' Retirement System shall serve without compensation, but shall be reimbursed for all reasonable and necessary expenses incurred through service upon said Board.

Sec. 34. Officers of System. (a) The Chairman of the Board, named pursuant to the provisions of Subsection 29(a) of this act, shall preside at all meetings that he is in attendance.

(b) At its first regular meeting each year, the Board shall elect from its membership: (1) A Vice Chairman, who shall preside at any meeting that the Chairman is absent; and (2) A Secretary of the Board, who shall be responsible for the recording and certifying of the record of proceedings.

(c) The City Treasurer shall be the Treasurer of the Retirement System and shall be custodian of its assets.

Sec. 35. Meetings. (a) The Board of Trustees shall conduct its business at meetings that conform with the 'Open Meetings Law,' Article 33C of Chapter 143 of the General Statutes, G.S. 143-318.9 through G.S. 143-318.18, as amended.

(a1) The Board of Trustees shall hold meetings regularly, at least one in each calendar quarter, and shall designate the time and place thereof. The first regular meeting in each Plan Year shall be held on the fourth Thursday of the month of July.

(b) The Chairman or, in the absence of the Chairman, the Vice Chairman may hold a special meeting and/or an emergency meeting at his discretion. Additionally, upon the written request of two members of the Board of Trustees, the Chairman shall call a special meeting of the Board.

When a special meeting is called, the Administrator shall insure that notice is given to each trustee either in person or by first class mail to the address of record on file with the Administrator. Such notice shall include the purpose of the meeting and designate

1 the time, date and place thereof. The Chairman or Vice Chairman shall insure that the
2 business of the special meeting be limited to the purpose as set forth in the notice.

3 When an emergency meeting is called, the Administrator shall attempt to notify each
4 Trustee by telephone to the telephone number on file with the Administrator.

5 (c) Each Trustee shall be entitled to one vote on each motion presented to the
6 Board of Trustees. The Chairman shall only vote in case of a tie or in such case as to
7 create a quorum. Six attending Trustees, including the Chairman, shall constitute a
8 quorum at any meeting of the Board and at least six affirmative votes shall be necessary
9 for a decision by the Trustees at any meeting of said Board. Prior to any discussion of a
10 specific agenda item for which a Trustee or the Chairman deems himself to have a
11 conflict of interest, or at such point during discussion that he determines himself to have
12 a conflict of interest, the Trustee or Chairman shall thereupon make such conflict known
13 to the Board and the Board shall inquire into the nature of the conflict and make a
14 determination whether a conflict of interest exists and if the Trustee or Chairman
15 participate in the discussion and vote on the agenda item.

16 (d) The Board of Trustees through the Secretary shall cause to be kept a record of
17 all of its proceedings which shall be open to public inspection.

18 **Sec. 36. Employment of Professional Services.** (a) The Board of Trustees shall
19 have the authority to employ and/or utilize professional and secretarial services and to
20 purchase and maintain such property, equipment and supplies as are deemed necessary
21 for the proper operation of the System. All expenses, fees and/or retainers for the
22 employment of services shall be borne by the System with the singular exception of the
23 employment of the Actuary. All fees and expenses in connection with the employment
24 of a qualified actuary to perform the annual evaluation of the Retirement System's
25 financial condition shall be paid by the City of Charlotte.

26 (a1) **Actuary.** The Board of Trustees shall annually request the City to employ a
27 qualified Actuary to perform such studies and evaluations of the Charlotte Firefighters'
28 Retirement System as may be necessary and/or desirable by the Board or City in
29 connection with the administration of the System. Within the meaning of this
30 subsection, a qualified Actuary shall be ~~an Actuary who has been enrolled by the Joint~~
31 ~~Board for the Enrollment of Actuaries and shall be an associate, member, or fellow of~~
32 ~~the conference of Actuaries in Public Practice~~ an associate or fellow of the Society of
33 Actuaries and either a member of the Conference of Consulting Actuaries or a member
34 of the American Academy of Actuaries.

35 (b) **Medical Board.** The Board of Trustees shall appoint a Medical Board to be
36 composed of one or more physicians to serve at the pleasure of the Board. The Medical
37 Board shall arrange for and evaluate all medical examinations required under provisions
38 of this act. The Medical Board shall also investigate and evaluate all medical evidence,
39 statements, and certificates submitted by and on behalf of a Member in connection with
40 an application for disability retirement. The Medical Board shall render its conclusions
41 and recommendations in writing to the Board of Trustees in accordance with the
42 provisions of this act.

1 (c) **Legal Counsel.** The City attorney and staff shall be the legal advisor to the
2 Board of Trustees. The Board may employ separate legal counsel as it deems necessary
3 and beneficial for the operation of the System.

4 (d) **Auditor.** The Board of Trustees shall appoint an Auditor who shall be a
5 certified public accountant.

6 (e) **Administrator.** The Board of Trustees shall have the authority to appoint an
7 Administrator who shall be responsible for the administration and coordination of all
8 System operations and activities that are not otherwise specified in this act. Such
9 administration shall be in accordance with rules and regulations of this act and the
10 policy and direction of the Board. In the absence of an Administrator, the Secretary of
11 the Board as specified in Section 34(b)(2) shall be responsible for the coordination of
12 Board meetings and providing proper notice of such meetings.

13 (f) **Insurance.** The Board of Trustees may purchase and maintain that insurance
14 coverage necessary for the proper operation of the System, including worker's
15 compensation, fidelity insurance, and officers' and employees' liability coverage. All
16 expenses incurred in purchasing or maintaining this coverage, including fees, and
17 retainers, shall be borne by the System.

18 Sec. 37. **Committees.** The Chairman of the Board shall appoint an Investment
19 Committee and a Benefits Committee and shall have the authority to appoint such other
20 committees of the Board as deemed appropriate.

21 Sec. 38. **Authority of Board of Trustees to Recommend Changes to the**
22 **Retirement System.** The Board of Trustees shall have the authority to recommend to
23 the City changes to the Retirement System. All recommendations for changes must be
24 actuarially sound and must take into account the interest of all Participants in the
25 System.

26 Sec. 39. **Authority of City of Charlotte to Make Changes with Respect to the**
27 **Retirement System.** Upon the recommendation of the Board of Trustees as provided in
28 Section 38 of this act, the City may, within its discretion, increase or decrease the rate of
29 contribution of the Members of the System and the City of Charlotte as may be
30 necessary for the proper operation of the Retirement System. Provided, however, that
31 no change shall reduce benefits being paid to Retirees of the System.

32 The City may deviate from the provisions of this act to the extent necessary to make
33 any changes in the System required by the Internal Revenue Service prior to its issuing
34 a favorable determination letter under Section 401(a) and Section 501(a) of the Internal
35 Revenue Code of 1986, as amended from time to time, and as required by the Internal
36 Revenue Service to maintain the qualified status of the Retirement System.

37 Sec. 40. **Authority of City of Charlotte to Recommend Changes to the**
38 **Retirement System.** Subject to the approval of the Board of Trustees, the City may
39 recommend to the General Assembly of the State of North Carolina changes to the
40 Retirement System. All recommendations for changes must be actuarially sound and
41 must take into account the interest of all Participants in the System.

42 Sec. 41. **Rules and Regulations.** Consistent with the provisions of this act, the
43 Board of Trustees shall have the authority to adopt the rules and regulations for the
44 administration of the Retirement System and for the transaction of its business.

TITLE VII. RECORD-KEEPING AND REPORTING REQUIREMENTS.

Sec. 42. **Record-Keeping.** The Administrator, or the Secretary of the Board in the absence of an administrator, shall maintain all data, files and records as is necessary to comply with the reporting requirements of this act.

Sec. 43. **Annual Audit.** There shall be an annual Audit of the books of the System. The Audit shall be performed by the Auditor as specified in ~~Section 36(d)~~ Section 36(d) of this act.

Sec. 44. **Annual Actuarial Valuation.** There shall be an annual Actuarial Valuation as of the 1st of July. The Valuation shall be performed by the actuary as specified in ~~Section 36(a1)~~ Section 36(a1) of this act. Such Valuation shall be completed and presented to the Board no later than the second regular quarterly meeting each year.

Sec. 45. **Annual Report to City Council.** An annual report of the financial and actuarial condition of the System, as of the preceding June 30, shall be prepared and forwarded to the City Council in the quarter after receipt of the System's audit report from the Auditor. Such report shall contain but shall not be limited to the Auditor's opinion, such statements contained in the Auditor's report, a summary of the annual actuarial valuation and the actuary's valuation certification.

Sec. 46. **Annual Report to Participants.** A copy of the report required by Section 45 shall be provided to each of the fire stations and Fire Department administrative offices of the City of Charlotte. In addition, a copy of the report or portions of the report shall be provided to the Participants of the System.

Sec. 47. **Other Reports.** The Administrator, or the Secretary of the Board in the absence of an administrator, shall be responsible for insuring that all reporting requirements with the Internal Revenue Service and the United States Government, including its various other agencies, departments, and offices, are complied with.

TITLE VIII. CUSTODY AND INVESTMENT OF SYSTEM ASSETS.

Sec. 48. **Trusteeship of Funds.** The Board of Trustees of the Charlotte Firefighters' Retirement System shall be the trustee of the funds and assets of the System and shall have the power to take by gift, grant, devise or bequest any money, real or personal property or other things of value, and hold, sell or invest the same.

Sec. 49. **Custody of System Assets.** The Treasurer of the Retirement System shall be the custodian and responsible for the safekeeping of all funds paid into the Charlotte Firefighters' Retirement System. The Treasurer shall deposit said funds in a bank or banks as designated by the Board of Trustees. The Treasurer may, with Board concurrence, use one or more nominees to facilitate transfer of the System's securities and may hold the securities in safekeeping with the Federal Reserve System, a clearing corporation, or a custodian bank which is a member of the Federal Reserve System. All payments from said funds shall be authorized by the treasurer only upon the signed, written request of the Administrator, or the Secretary of the Board in the absence of an administrator. The Treasurer shall furnish such bond as shall be required by the Board of Trustees and premium for said bond shall be paid out of the funds of the System.

Sec. 50. **Investment/Reinvestment of Funds and Assets.** The Board of Trustees shall be vested with the authority and responsibility and shall have full power to hold,

1 purchase, sell, assign, transfer, lend and dispose of any of the securities and investments
2 in which the System shall have been invested, as well as the proceeds of said
3 investments and any monies belonging to the System. The Board of Trustees as
4 fiduciaries shall:

- 5 (1) Discharge its duties solely in the interest of the Participants and the
6 Beneficiaries;
- 7 (2) Act with the same care, skill, prudence and diligence under the
8 circumstances then prevailing, that a prudent person acting in a similar
9 capacity and familiar with those matters would use in the conduct of a
10 similar enterprise with similar aims;
- 11 (3) Act with due regard for the management, reputation and stability of the
12 issuer and the character of the particular investments being considered;
- 13 (4) Make investments for the exclusive purpose of providing benefits to
14 Participants and Participants' Beneficiaries;
- 15 (5) Give appropriate consideration to those facts and circumstances the
16 Board of Trustees knows or should know are relevant to the particular
17 investment or investment course of action involved, including the role
18 the investment or investment course of action plays in that portion of
19 the System's investments for which the Board of Trustees has
20 responsibility, and shall act accordingly. Appropriate consideration
21 shall include, but is not limited to, a determination by the Board of
22 Trustees that a particular investment or investment course of action is
23 reasonably designed as part of the investments of the System to further
24 the purposes of the System taking into consideration the risk of loss
25 and the opportunity for gain or other return associated with the
26 investment or investment course of action; and consideration of the
27 following factors as they relate to the investment or the investment
28 course of action:
 - 29 a. The diversification of the investments of the System;
 - 30 b. The liquidity and current return of the investments of the
31 System relative to the anticipated cash flow requirements of the
32 System; and
 - 33 c. The projected return of the investments of the System relative
34 to the funding objectives of the System;
- 35 (6) Give appropriate consideration to investments which would enhance
36 the general welfare of the City and its citizens if those investments
37 offer the safety and rate of return comparable to other investments held
38 by the System and available to the Board of Trustees at the time the
39 investment decision is made;
- 40 (7) May use a portion of income of the System to defray the cost of
41 investing, managing and protecting the assets of the System; and
- 42 (8) May utilize the services of Investment Fiduciaries to manage the assets
43 of the System. These Investment Fiduciaries shall be subject to the

terms, conditions, and limitations provided in this section and any limitations as set forth by the Board of Trustees.

TITLE IX. RESTRICTIONS.

Sec. 51. **Restrictions.** Notwithstanding any provision of this act to the contrary:

- (1) No part of the funds contributed to the Retirement System, or the income thereon, may be used for, or diverted to, purposes other than for the exclusive benefit of the Participants of the Retirement System as authorized by the provisions of this act, provided that in the event of the termination of the Retirement System, the City shall receive any surplus funds or assets after all liabilities of the Retirement System are satisfied.
- (2) Upon termination of the Retirement System or upon complete discontinuance of contributions to the Retirement System, the rights of all Participants of the Retirement System to benefits accrued to the date of the termination or discontinuance, to the extent then funded, are nonforfeitable.
- (3) Forfeitures under the Retirement System may not be applied to increase the benefits that any Participant would otherwise receive under the Retirement System.
- (4) Notwithstanding any provision of the Retirement System to the contrary, the maximum annual benefit payable in the form of a straight life annuity from the Retirement System on behalf of a Participant, when combined with any benefits from another qualified benefit plan maintained by the City, shall not exceed the amount as ~~provided in this section. If the normal form of payment is other than a straight life annuity or a qualified joint and survivor annuity, the amount so determined hereunder shall be adjusted on an actuarially equivalent basis to reflect such other payment form.~~
 - a. ~~Ninety thousand dollars (\$90,000) (or, beginning January 1, 1988), such larger dollar amount as the Commissioner of Internal Revenue may prescribe. Such amount shall be the maximum annual benefit pursuant to this subdivision a. for that calendar year and shall apply to the limitation year ending with or within that calendar year.~~
 - b. ~~The average annual compensation the Participant received from the City during the three consecutive calendar years which would produce the highest such average permitted by section 415 of the Internal Revenue Code.~~
- (5) Any benefit payable to a Participant pursuant to Section 4 of this act shall commence not later than the April 1 immediately following the calendar year in which the Participant attains age 70 1/2 or, if later, the April 1 immediately following the calendar year in which the Participant terminates service. Additionally, the distribution of any such benefit must satisfy the minimum distribution requirements set

1 forth in this paragraph and must be consistent with Treasury
2 Regulations, as of the required beginning date. The minimum
3 distribution for a calendar year equals the Participant's nonforfeitable
4 Accrued Benefit at the beginning of the year divided by the
5 Participant's life expectancy or, if applicable, the joint and last survivor
6 expectancy of the participant and his Designated Beneficiary. The
7 minimum distribution shall be computed by using the life expectancy
8 multiples under Treasury Regulation 1.72-9. The minimum
9 distribution for a calendar year subsequent to the first calendar year for
10 which a minimum distribution is required may be computed by
11 redetermining the applicable life expectancy. However, there shall be
12 no redetermination of the joint life and last survivor expectancy of the
13 Participant and a nonspouse Designated Beneficiary in a manner which
14 takes into account any adjustment to a life expectancy other than the
15 Participant's life expectancy. A distribution to the Participant in the
16 form of a life annuity, joint and survivor annuity, or an annuity over a
17 fixed period will satisfy the minimum distribution requirements of this
18 paragraph if the method of distribution provides non-increasing
19 payments or otherwise satisfies Treasury Regulations. If the
20 Participant dies after the payment of his benefit has commenced, the
21 death benefit provided by this act shall be paid over a period which
22 does not exceed the payment period which had commenced. If a
23 Participant dies prior to the time the payment of his benefit
24 commences, the death benefit provided by this act shall be paid over a
25 period not exceeding: (i) five years after the date of the Participant's
26 death; or (ii) if the Beneficiary is a Designated Beneficiary, over the
27 Designated Beneficiary's life or life expectancy. No payment of benefit
28 over a period described in (ii) shall be permitted, unless the payment of
29 such benefit to the Designated Beneficiary will commence no later
30 than one year after the date of the Participant's death, or, if later, and
31 the Designated Beneficiary is the Participant's surviving spouse, the
32 date the Participant would have attained age 70 1/2. The life
33 expectancy multiples under Treasury Regulation 1.72-9 shall be used
34 for purposes of applying this paragraph. The life expectancy of a
35 Participant's surviving spouse may be recalculated not more frequently
36 than annually, but the life expectancy of a nonspouse Designated
37 Beneficiary may not be recalculated after the commencement of
38 payment of benefits to the Designated Beneficiary. Any amount paid
39 to a Participant's child, which becomes payable to the Participant's
40 surviving spouse upon the child's attaining the age of majority, shall be
41 treated as paid to the Participant's surviving spouse for purposes of
42 applying this paragraph.

TITLE X. MISCELLANEOUS.

1 Sec. 52. **Liabilities of Trustees.** No member of the Board of Trustees shall be
2 personally liable by reason of his service as a Trustee for any acts performed by him as
3 a Trustee, except for malfeasance in office. Except for costs or expenses incurred
4 because of Trustee malfeasance, the System shall indemnify each Trustee for any and
5 all costs or expenses incurred by that Trustee as a result of acts performed as a Trustee,
6 including all insurance deductibles, copayments, and amounts exceeding insurance
7 policy limits.

8 Sec. 53. **Assignments Prohibited.** The right of a Member to any benefits payable
9 or reimbursement of any contributions, and any other right accrued or accruing to any
10 person pursuant to the provisions of this act, and any monies belonging to the
11 Retirement System shall not be subject to execution, garnishment, attachment, the
12 operation of bankruptcy or insolvency law, or any other process of law whatsoever, and
13 shall be unassignable except as is specifically authorized by statute. If a Member is
14 covered under a group insurance or prepayment plan participated in by the City, and
15 should he be permitted to, and elect to, continue such coverage as a Retiree, he may
16 authorize the Board of Trustees to have deducted from his monthly retirement benefits
17 the payments required of him to continue coverage under such group insurance or
18 prepayment plan.

19 Sec. 54. **Errors.** Should any change in the records result in any person receiving
20 from the Retirement System more or less than he would have been entitled to receive
21 had the records been correct, the Board of Trustees shall correct such error, and as far as
22 practicable shall adjust the payment in such manner that the Actuarial Equivalent of the
23 benefit to which the said person was correctly entitled shall be paid.

24 Sec. 55. **Protection Against Fraud.** Whoever with intent to deceive shall make
25 any statements and/or reports required under this act which are untrue, or shall falsify or
26 permit to be falsified any records of the Retirement System, or who shall otherwise
27 violate, with intent to deceive, any of the provisions of this act, shall be prosecuted to
28 the fullest extent of the law.

29 The Charlotte Firefighters' Retirement System shall have the right of setoff for any
30 claim arising from embezzlement or by fraud of a Participant.

31 Sec. 56. Repealed by Section 17 of Chapter 248 of the 1989 Session Laws.

32 Sec. 57. **Laws Inconsistent Repealed.** All laws and clauses of law pertaining to
33 the Charlotte Firefighters' Retirement System that are in conflict with the provisions of
34 this act are hereby revoked.

35 Sec. 58. **Savings Provisions.** If any section or part of this act is for any reason held
36 to be invalid or unconstitutional, such holding shall not be construed as affecting the
37 validity of the remaining sections of this act or the act in its entirety; it being the
38 legislative intent that this act shall stand notwithstanding the invalidity of any section or
39 part of a section.

40 Sec. 59. This act shall apply to the City of Charlotte only."

41 **SECTION 2.** None of the provisions of this act shall create an additional
42 liability for the Charlotte Firefighters' Retirement System unless sufficient assets are
43 available to pay for the liability.

44 **SECTION 3.** This act becomes effective July 1, 2001.



HOUSE BILL 604: Amend Charlotte Firefighters' Retirement Act.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: March 29, 2001
Version: First Edition

Introduced by: Rep. Alexander
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

House Bill 604 makes various amendments to the Charlotte Firefighters' Retirement System Act, including changes to the definition of the term "Compensation", and increases in the rate of interest paid on the return of member and beneficiaries contributions.

CURRENT LAW:

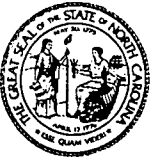
The Charlotte Firefighters' Retirement System Act is an actuarially funded defined benefit plan that was enacted in 1947. The System provided retirement, disability and survivor benefits to certain employees of the Charlotte Fire Department. Members of the Charlotte Firefighters' Retirement System are not eligible for membership in the Local Governmental Employees' Retirement System.

BILL ANALYSIS:

This bill makes various changes to the law governing the Charlotte Firefighters' Retirement System, including:

1. Revising the definition of the term "compensation" to mean reportable W-2 wages prior to any reductions for various employee benefit programs, deferred compensation and employee contributions authorized by the Internal Revenue Code. The definition also conforms to the IRS requirements for maximum compensation allowed.
2. Amending the definition of "Final Average Salary" to include up to two years of unused sick and vacation leave and payments for longevity to the extent payments were made during two of the member's last five years of service.
3. Removing the reference to social security contributions in all provisions relating to member and employer contributions and setting the contribution rate at 12.65%.
4. Increasing the rate of interest paid on the return of member contribution for members who leave the System with more than five years from 0 to 4%, and the rate paid at the death of a member from 2.5% to 4%.
5. Revising the language authorizing post-retirement adjustments to be made as recommended by the actuary subject to a maximum of an eligible retiree's aggregate monthly benefit.

This act would become effective July 1, 2001.



North Carolina General Assembly
Legislative Services Office

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(919) 733-2578

March 27, 2001

MEMORANDUM

TO: Representative Martha Alexander

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note on House Bill 604

Re: Charlotte Firefighter's Retirement Act

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, March 22, 2001
- (3) Actuarial Note, Hartman & Associates, March 17, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 604

SHORT TITLE: Amend Charlotte Firefighter's Retirement Act

SPONSOR(S): Representative Martha Alexander

SYSTEM OR PROGRAM AFFECTED: Charlotte Firemen's Retirement System

FUNDS AFFECTED: City of Charlotte Funds

BILL SUMMARY:

- (1) Defines "Compensation" as reportable W-2 wages prior to any reductions for several different Deferred Compensation type programs allowed by the Internal Revenue Codes. Complies with the Internal Revenue Code as to the maximum compensation allowed.
- (2) Includes in definition of "Compensation" up to 24 days of unused sick leave.
- (3) Increases the interest rate that is paid on return of contribution to a member or to a beneficiary of a member from 2.5% to 4%.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON CITY OF CHARLOTTE: System Actuary Buck Consultants estimates the cost of this legislation will be 1.79% of payroll. This cost can be funded by extending the funding period for the unfunded liability within acceptable ranges as needed.

	2001-02	2002-03	2003-04	2004-05	2005-06
Estimated Cost	\$592,490	\$592,490	\$592,490	\$592,490	\$592,490


General Assembly Actuary: Hartman & Associates does not have sufficient data on participants to estimate the financial impact of the changes.

ASSUMPTIONS AND METHODOLOGY: 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, 2000 actuarial valuation of the fund. The data included 780 active members and 394 retired members in receipt of annual pensions totaling \$12.6 million. Significant actuarial assumptions used include (a) an investment return rate of 7.75%, (b) the UP 1984 Mortality Table for deaths after retirement, (c) salary increases ranging from 4.75% to 7.75% per year for active members, (d) rates of separation from active service based on experience and (e) estimated payroll for active members of \$33.1 million. The actuarial cost method used was the entry age normal cost method. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

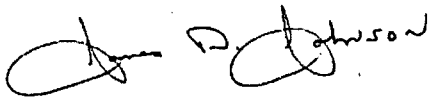
SOURCES OF DATA: System Actuary – Buck Consultants Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: March 26, 2001

**BUCK
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

March 22, 2001

Ms. Barbara J. Avard
Administrator
Charlotte Firefighters' Retirement System
Charlotte National Building
428 East Fourth Street, Suite 205
Charlotte, NC 28202

Dear Barbara:

As requested, we are summarizing the cost of the pending legislation to the Act governing the Charlotte Firefighters' Retirement System.

Currently, a member who terminates with five or more years of membership service credit may elect a return of his own contributions in lieu of a monthly benefit deferred to age 60. Under the pending legislation, the member would also be entitled to 4% interest, compounded annually, on these contributions if he elects the refund. Our actuarial calculations use the assumption that all such members will elect the deferred benefit in lieu of the refund, so there would be no cost assumed for the proposal.

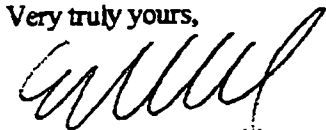
Also, under the pending legislation, beneficiaries of members who die prior to retirement eligibility would now receive interest of 4% a year on the deceased member's contributions rather than 2.5% a year. The effect of this change is an increase of .16% of payroll.

Finally, under the pending legislation, the definition of compensation for determining Final Average Salary would include up to 24 unused sick days rather than up to 4.8 such days that are currently included. The cost of this change, assuming everyone qualifies for the maximum 24 days, is expected to be 1.63% of payroll.

The total cost of the pending legislation, therefore, is expected to be 1.79% of payroll. This cost can be funded by extending the funding period for the unfunded liability within acceptable ranges as needed.

Please let us know if you have any questions or comments.

Very truly yours,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:jg

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16164-0001 / RST 01/165

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

March 17, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 604: An Act to Amend the Law Establishing the
Charlotte Firemen's Retirement System

Dear Mr. Moore:

This act amends Chapter 926 of the 1947 Session Laws, as amended, to make various changes to the Charlotte Firemen's Retirement System. This act is effective July 1, 2001.

Certain provisions of this act modify the Charlotte Firemen's Retirement System to comply with amended provisions of the Internal Revenue Code. The act also modifies various benefit provisions in the retirement system. These include:

- adding interest at 4% per year on a member's contributions if he elects such a refund in lieu of a retirement income;
- increasing the interest credited on the refund of contributions of a deceased member from 2.5% to 4%; and,
- including up to 24 days unused sick leave in the definition of compensation used to determine Final Average Salary.

These provisions of this act may generate a cost to the plan. However, we do not have the demographic data on plan participants needed to calculate such cost. Thus, no estimate is made for the financial impact of this act.

If you have any questions, please let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chair/Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

- ☐ Committee Substitute for
H.B. 604 A BILL TO BE ENTITLED AN ACT TO AMEND THE LAW ESTABLISHING
THE CHARLOTTE FIREMEN'S RETIREMENT SYSTEM.
- ☒ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title,
unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation
that the committee substitute bill #) be re-referred to the Committee on .)
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

MINUTES
HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT

April 4, 2001

The House Committee on Pensions and Retirement met on Wednesday, April 4, 2001, in Room 415 of the Legislative Office Building at 12 Noon. The following members were present: Chairman Dan Barefoot; Chairman Leslie Cox; Vice-Chairman Gene McCombs; Representatives Easterling, Hensley, Morgan, Oldham, Rogers, Shubert, Starnes, Tolson, and Gene Wilson. Stanley Moore, Fiscal Research, and Theresa Matula, Research Division, were also in attendance. A Visitor Registration list is attached and made part of these minutes.

Chairman Cox called the meeting to order. He recognized Representative Harrington to explain HB777 – A BILL TO BE ENTITLED AN ACT TO REPEAL THE GASTONIA FIREMEN'S SUPPLEMENTARY PENSION FUND. He stated the bill was requested by Resolution from the City of Gastonia. A copy of the bill, the Resolution from the City of Gastonia, fiscal note, and the bill summary are attached and made part of these minutes. Representative Rogers made a motion that the bill be given a favorable report; motion carried.

Chairman Cox recognized Representative Tucker to explain HB81 – A BILL TO BE ENTITLED AN ACT TO INCREASE THE DEATH BENEFIT FOR MEMBERS OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM. Representative Tucker stated this is a bill to bring equalization between local government employees and state employees. Currently the benefit for local governments who have chosen to have death benefits is equal to the employee's annual salary not to exceed \$20,000. The death benefit for a state employee is one-year salary with a minimum of \$25,000, a maximum of \$50,000. Representative Tucker said that Buck Consultants stated there are sufficient assets in the plan to provide this benefit increase without an increase in the death benefit rate paid by local units that have elected the death benefit coverage. Those governmental units that have not elected the death benefit coverage would have to pay the additional cost if they do choose to add this coverage. A copy of the bill, fiscal note, and bill summary are attached and made part of these minutes.

Chairman Cox recognized Mr. Stanley Moore, Fiscal Research Division, to further explain the bill. He reiterated that the death benefit for teachers and state employees who have one year of service is one-year salary with a minimum of \$25,000 and a maximum of \$50,000. For local employees the death benefit is equal to one-year salary with a maximum of \$20,000.

Chairman Cox recognized Representative Gene Wilson who made a motion to give the bill a favorable report with recommendation that the bill be re-referred to the Committee on Appropriations; motion carried.

Representative Hensley was recognized to explain HB4 – A BILL TO BE ENTITLED AN ACT TO ALLOW LAW ENFORCEMENT OFFICERS WHO ARE MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OR THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED BENEFITS AFTER COMPLETING TWENTY-FIVE YEARS OF SERVICE. Representative Hensley introduced Chief Tom Moss from Garner, NC; Sheriff Earl Butler from Fayetteville, NC; and US Marshal Tucker. A copy of the bill, fiscal note, and bill summary are attached and made a part of these minutes. Also attached and made a part of the minutes is a copy of the remarks made by Representative Hensley.

Chairman Cox recognized Mr. Stanley Moore who said the increased cost to the Teachers' and State Employees' Retirement System would be approximately \$3.4 million the first year going up to approximately \$5.5 million. The cost to local governments would be approximately \$9.4 million the first year going up to approximately \$16 million.

In answer to a question from Representative Morgan, Representative Hensley stated that a police officer's lifespan is about 59 years, or about five years after retirement. He said the reduced lifespan is brought on by stress which contributes to other health problems.

Mr. Andy Romanet, NC League of Municipalities; and Mr. Ed. Regan, NC Association of County Commissioners, each oppose special benefits for special classes of employees. They added that it would also place an additional financial burden on local governments.

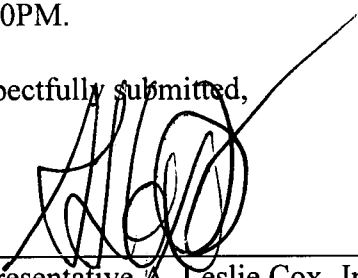
Representative Hensley was recognized and stated that his research indicates the cost to the various counties and cities in North Carolina would range from zero in very small towns to from .09% to 1.1% of the police budget – not the entire city or county budget – in larger cities, towns, and counties.

Representative Cox recognized several visitors for public comment. Earl Butler, Sheriff, Cumberland County, speaking on behalf of the Sheriffs' Association; Ms. Robin Pendergraff speaking on behalf of the FBI and Attorney General Roy Cooper; and Mr. Tom Moss, Past President of the State Police Chiefs' Association, all spoke in support of HB4.

As a member of this committee, Representative Hensley made a motion to give the bill a favorable report with recommendation that it be re-referred to the Committee on Appropriations; motion carried unanimously.

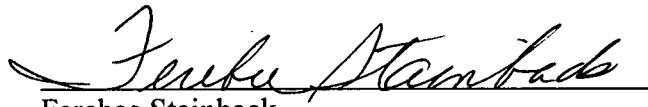
There being no further business, Chairman Cox adjourned the meeting at 12:50PM.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Representative Daniel W. Barefoot
Chairman



Ferebee Stainback
Committee Assistant

VISITOR REGISTRATION SHEET

Pensions & Retirement

Name of Committee

4-04-01

Date

VISITORS: PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

<u>NAME</u>	<u>FIRM OR AGENCY AND ADDRESS</u>
Deputy Henry D. Jenkins	WPSO 330 S. Salisbury St. Raleigh NC
Deputy Alfred L. Drayton	WCSO 330 S. Salisbury St. Raleigh NC
Deputy Scott Earp	Wake County Sheriff's Office 330 S. Salisbury St.
Deputy Richard Lambert	Wake County Sheriff's Office "
Deputy Greg Newkirk	Wake Co. Sheriff's Office "
Deputy Bill Hordings	Wake Co. Sheriff's Office "
Sgt. R.E. Hawley	Wake Co. Sheriff's Office "
Sherry, Director	SEANC
Frank Lewis	OSBP M
Steve Hale	WCSO
KE Pearce	WCSO
G. G. Wood	Wake Co. Sheriff's Office
Jerry S. Winstend	Wake Co. Sheriff's Office
Clarence Mayo	Wake Co. Sheriff's Office
Douglas Wooten	Wake Co. Sheriff's Office
Greg L. Kingsbury	Raleigh Police and (PBA)
David R. Anderson	PFT-PNC
Tom Coleman	Wake County Sheriff's Office
Gary Toler	Wake County Sheriff's Office
Ralph Southland	Wake County Sheriff's Office
STEVEN SMITH	MORGANTON DEPT PUBLIC SAFETY
Lynn C. Howard	Raleigh Police Dept.
Amanda B. Salmon	Rail. P.D.
Michael D. Grissom	CCBT - Wake Co.
Phillip R. Wiggins	Durham Police Dept. / FOP
DONALD PEWITT	President - NC Fraternal Order of Police
John H. Hays	FOP
HARRY WALKER	F.O.P.

VISITOR REGISTRATION SHEET

Pensions & Retirement 4-04-01
 Name of Committee Date

VISITORS: PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Charles Howard	FOP
ST SCOTT GEIER	FOP
RONNIE L STINSON	FOP
Phillip Robbins	CCBI WAKE Co.
KELVIN Smith	WC50
James Nidiffer	RPPA
Rick Armstrong	Raleigh Police Protective Association
Robin Pendergraft	SBI / Dept. of Justice
Eddie Caldwell	NC Sheriff's Assn / NC Law Enf. Off. Assn.
Earl Butler	NC Sheriff Assn
WE Billy Smith	NC Sheriff Assn - Lenoir Co.
Rickie A. Pearson Sr	Lenoir Co Sheriff's Office
TIM BREWER	FOP/Newton PD 411 N. MAIN Ave, Newton 28658
William H. Davis	FOP/Rocky Mount PD
Mark Tucker	Wake Co FOP
CALVIN DANIELS	FOP MORGANTON NC Morganton Public Safety
Jeffrey R. Fluck	NC PBA
Randy Miller	Raleigh Wake chapter PBA / Raleigh Police Dept
Bill Martin	NC PBA
Robert Miller	NC PBA
Billy Pugh	NC PBA
KAY J. Patterson	WAKE Co. Sheriff's Dept. - CID
J. C. [Signature]	NC PBA
Victor Ingram	NC PBA
Craig Hewitt	NCCOPS / Greensboro P.D.
GARY L. EVANS	Wake Co. Sheriff's Office
SEAN M. PORTLAND	WAKE Co. Sheriff's Office
ALAN BEANE	WAKE Co. Sheriff's Office / FOP Lodge #41
Rose Beane	Wake Co. Sheriff's Office / FOP Lodge #41

~~ABC~~ ~~Comm. Fee~~

4-04-
~~4-11-01~~
Date

Name of Committee
Pensions & Retirement

NAME _____

FIRM OR AGENCY AND ADDRESS

Mike Okun	NC State AFL-CIO
Ethelinda Davis	Edinburg, Texas
Det. Edward Atkinson	Wake Co. Sheriff's Dept. P.O. Box 550 Raleigh, N.C.
Charles Wilkins	NC Assoc. Chiefs of Police
Donna Maynard	NC SHERIFFS' ASSN.
Tom Moss	CHIEF, GARNER POLICE
El Rego	N.C. A.C.C.
Andy Romanet	N.C.L.M.
Delbra Buzan	Treasurer's Office - Retirement
Sam Nagle	Wake County Sheriff's Office
Caroline Nagle	My Dad ~
Marshall Barnes	Department of State Treasurer
Michael Williamson	"

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 777

Short Title: Repeal Gastonia Firemen's Supp. Pension Fund.

(Local)

Sponsors: Representatives Harrington; Barefoot, Clary, Hilton, Kiser, Rayfield, and Weatherly.

Referred to: Pensions and Retirement.

March 26, 2001

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE GASTONIA FIREMEN'S SUPPLEMENTARY
PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 537 of the 1949 Session Laws, as amended by Chapter 111 of the 1957 Session Laws, Chapter 51 of the 1975 Session Laws, Chapter 1016 of the 1983 Session Laws, and S.L. 97-161, is repealed.

SECTION 2. All funds remaining in the Gastonia Firemen's Supplementary Pension Fund are transferred to the board of trustees established for the Fund, to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.

***Amending the terms of the Gastonia Fireman's
Supplementary Pension Fund***

The Firemen's Pension Fund was established in 1949 to provide firefighters with additional income for their retirement years. Funding for the Fund comes from a statewide insurance tax (approximately \$25,000/year) and from a 1% base salary contribution made by the City (approximately \$45,000/year). Under the funds guidelines, members who work until retirement are eligible to receive \$4.00 per month for each completed year of service, for a maximum of \$120.00 per month.

The proposed Amendment would end the special payments to Fireman's Supplemental Pension Fund and replace it with an increased level of contributions to the City's 401(a) accounts for Gastonia firefighters. The Pension Funds Board of Trustees, following an independent actuarial study of the Fund, has recommended this change. The number of personnel eligible to draw from the Supplemental Fund would be frozen as of July 1, 2009. Included in the amendment is a provision that would add one retired member to the Board of Trustees.

RESOLUTION OF THE CITY OF GASTONIA
REQUESTING A LOCAL ACT AMENDING THE TERMS OF
THE GASTONIA FIREMEN'S SUPPLEMENTARY PENSION FUND

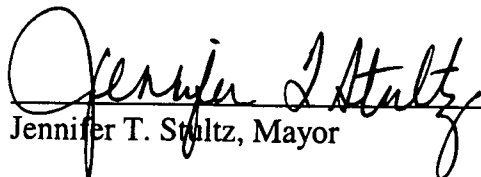
WHEREAS, the provisions of Chapter 537 of the Session Laws of 1949 (as amended by Chapter 111 of the Session Laws of 1957, as further amended by Chapter 51 of the Session Laws of 1975, and as further amended by Chapter 1016 of the Session Laws of 1984) establish the Gastonia Firemen's Supplementary Pension Fund, which provides that each full time paid member of the Gastonia Fire Department who retires under section 4 of said Act shall receive monthly for the remainder of his/her life an amount equal to \$4 for each year of service with the Fire Department, not to exceed \$120 per month, and

WHEREAS, the members of the Gastonia Fire Department who are more than 9 years from eligibility for payment of unreduced retirement benefits under the North Carolina Local Governmental Retirement Plan, by written ballot conducted during April of 2000, have voted to request changes to the Supplementary Pension Fund as it applies to them, which changes would include: suspension of additional benefit accruals for them under the Supplementary Pension Fund; payment of the value of the benefits accrued for them under the Supplementary Pension Fund (or alternatively, the rollover of such payment to the City's 401(a) Plan, if allowed by such plan); and the addition to the Board of Trustees of a retired member of said Gastonia Fire Department; and

WHEREAS, a change to the Supplementary Pension Fund requires legislative action by the General Assembly of the State of North Carolina.

NOW, THEREFORE, BE IT HEREBY RESOLVED that the City Council of the City of Gastonia requests the General Assembly of the State of North Carolina, during its May 2000 General Session, to enact the appropriate legislation amending Chapter 537 of the Session Laws of 1949 (as amended by Chapter 111 of the Session Laws of 1957, as further amended by Chapter 51 of the Session Laws of 1975, and as further amended by Chapter 1016 of the Session Laws of 1984) to provide, as indicated hereinabove, for the changes requested by the members of the Gastonia Fire Department who are more than 9 years from eligibility for unreduced retirement benefits under the North Carolina Local Governmental Retirement Plan.

This 1st day of May, 2000.


Jennifer T. Stultz, Mayor


(Deputy) City Clerk



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

Goldman, Director
Administrative Division
Room 9, Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
(919) 733-7500

Gerry F. Cohen, Director
Bill Drafting Division
Suite 401, LOB
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(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

March 30, 2001

MEMORANDUM

TO: Representative Michael Harrington

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on House Bill 777
Repeal of the Gastonia Firemen's Supplemental Pension Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, House Bill 777, March 27, 2001



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-2578

March 27, 2001

Representative Michael Harrington
North Carolina House of Representative
Raleigh, North Carolina 27601

Re: Actuarial/Fiscal Note (Gastonia Firemen's Supplemental Pension Fund)

Dear Representative Harrington:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: Repeal of the Gastonia Firemen's Supplemental Pension Fund.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: The Gastonia Firemen's Supplemental Pension Fund is presently financed by the transfer of assets from the City of Gastonia Firemen's Local Relief Fund and contributions by the City of Gastonia. The Pension Fund presently provides supplemental retirement benefit equal to \$4.00 per month for each year of service not to exceed \$120.00 per month.

With this repeal, all funds originating from the Gastonia Firemen's Local Relief Fund will be transfer back to the Gastonia Firemen's Local Relief Fund to be used as allowed by G. S. 58-84-35.

Actuarial Endorsement:

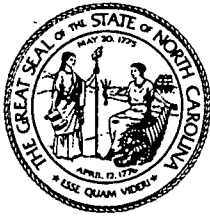
Charles W. Dunn

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore

Stanley Moore
Fiscal Analyst
Fiscal Research Division



BILL ANALYSIS

HOUSE BILL 777: Repeal Gastonia Firemen's Supp. Pension Fund

Committee: House Pensions and Retirement
Date: April 3, 2001
Version: 1st Edition

Introduced by: Representative Harrington
Summary by: Theresa Matula
Committee Staff

SUMMARY: House Bill 777 repeals the Gastonia Firemen's Supplementary Pension Fund.

BILL ANALYSIS:

Section 1 of this bill repeals Chapter 537 of the 1949 Session Laws, as amended by Chapter 111 of the 1957 Session Laws, Chapter 51 of the 1975 Session Laws, Chapter 1016 of the 1983 Session Laws and S.L. 97-161. These Session Laws provide a supplemental retirement fund for the Fire Department in the City of Gastonia. The fund is administered by a board of trustees composed of the following: (a) Chief of the Fire Department of the City of Gastonia; (b) the Assistant Chief of the Fire Department of the City of Gastonia; (c) two members of said board to be elected annually from the membership of the Fire Department of the City of Gastonia, by a majority vote of the Chief and members of the Fire Department; (d) the Accountant of the City of Gastonia.

Section 2 directs the transfer of all funds remaining in the Gastonia Firemen's Supplementary Pension Fund to the board of trustees to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes.

Section 3 establishes that this act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

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1

HOUSE BILL 81

Short Title: Increase Death Benefit/Local Retirement.

(Public)

Sponsors: Representatives Tucker; Womble, Coates, Alexander, and Cox.

Referred to: Pensions and Retirement.

February 8, 2001

A BILL TO BE ENTITLED
AN ACT TO INCREASE THE DEATH BENEFIT FOR MEMBERS OF THE LOCAL
GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-27(l) reads as rewritten:

"(l) Death Benefit Plan. – The provisions of this subsection shall become effective for any employer only after an agreement to that effect has been executed by the employer and the Director of the Retirement System. There is hereby created a Group Life Insurance Plan (hereinafter called the "Plan") which is established as an employee welfare benefit plan that is separate and apart from the Retirement System and under which the members of the Retirement System shall participate and be eligible for group life insurance benefits. Upon receipt of proof, satisfactory to the Board of Trustees in their capacity as trustees under the Group Life Insurance Plan, of the death, in service, of a member who had completed at least one full calendar year of membership in the Retirement System, there shall be paid to such person as he shall have nominated by written designation duly acknowledged and filed with the Board of Trustees, if such person is living at the time of the member's death, otherwise to the member's legal representatives, a death benefit. Such death benefit shall be 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 his death occurs, or
- (2) The greatest compensation on which contributions were made by the member during a 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 his last day of actual service occurs;
- (3) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1049, s. 2;

subject to a minimum of twenty-five thousand dollars (\$25,000) and to a maximum of
~~twenty thousand dollars (\$20,000).~~ fifty thousand dollars (\$50,000). Such death benefit
shall be payable apart and separate from the payment of the member's accumulated
contributions under the System on his death pursuant to the provisions of subsection (f)
of this section. For the purpose of the Plan, a member shall be deemed to be in service at
the date of his death if his death occurs within 180 days from the last day of his actual
service.

The death benefit provided in this subsection shall not be payable, notwithstanding
the member's compliance with all the conditions set forth in the preceding paragraph, if
his death occurs

- (1) After June 30, 1969 and after he has attained age 70; or
- (2) After December 31, 1969 and after he has attained age 69; or
- (3) After December 31, 1970 and after he has attained age 68; or
- (4) After December 31, 1971 and after he has attained age 67; or
- (5) After December 31, 1972 and after he has attained age 66; or
- (6) After December 31, 1973 and after he has attained age 65; or
- (7) After December 31, 1978, but before January 1, 1987, and after he has
attained age 70.

Notwithstanding the above provisions, the death benefit shall be payable on account
of the death of any member who died or dies on or after January 1, 1974, but before
January 1, 1979, after attaining age 65, if he or she had not yet attained age 65, if he or
she had not yet attained age 66, was at the time of death completing the work year for
those individuals under specific contract, or during the fiscal year for those individuals
not under specific contract, in which he or she attained age 65, and otherwise met all
conditions for payment of the death benefit.

Notwithstanding the above provisions, the Board of Trustees may and is specifically
authorized to provide the death benefit according to the terms and conditions otherwise
appearing in this Plan in the form of group life insurance, either (i) by purchasing a
contract or contracts of group life insurance with any life insurance company or
companies licensed and authorized to transact business in this State for the purpose of
insuring the lives of members in service, or (ii) by establishing a separate trust fund
qualified under section 501(c)(9) of the Internal Revenue Code of 1954, as amended, for
such purpose. To that end the Board of Trustees is authorized, empowered and directed
to investigate the desirability of utilizing group life insurance by either of the foregoing
methods for the purpose of providing the death benefit. If a separate trust fund is
established, it shall be operated in accordance with rules and regulations adopted by the
Board of Trustees and all investment earnings on the trust fund shall be credited to such
fund.

In administration of the death benefit the following shall apply:

- (1) For the purpose of determining eligibility only, in this subsection
"calendar year" shall mean any period of 12 consecutive months. For
all other purposes in this subsection "calendar year" shall mean the 12
months beginning January 1 and ending December 31.
- (2) Last day of actual service shall be:

- 1 a. When employment has been terminated, the last day the
2 member actually worked.
3 b. When employment has not been terminated, the date on which
4 an absent member's sick and annual leave expire.
5 (3) For a period when a member is on leave of absence, his status with
6 respect to the death benefit will be determined by the provisions of
7 G.S. 128-26(g).
8 (4) A member on leave of absence from his position as a local
9 governmental employee for the purpose of serving as a member or
10 officer of the General Assembly shall be deemed to be in service
11 during sessions of the General Assembly and thereby covered by the
12 provisions of the death benefit, if applicable. The amount of the death
13 benefit for such member shall be the equivalent of the salary to which
14 the member would have been entitled as a local governmental
15 employee during the 12-month period immediately prior to the month
16 in which death occurred, not to ~~exceed twenty thousand dollars~~
17 ~~(\$20,000).~~ be less than twenty-five thousand dollars (\$25,000) nor to
18 exceed fifty thousand dollars (\$50,000).

19 The provisions of the Retirement System pertaining to administration, G.S. 128-28,
20 and management of funds, G.S. 128-29, are hereby made applicable to the Plan."

21 **SECTION 2.** This act becomes effective July 1, 2001, and applies to deaths
22 occurring on or after that date.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 81

SHORT TITLE: Increase Death Benefit

SPONSOR(S): Representative Tucker

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: Local Government Funds

BILL SUMMARY: Increases the Death Benefit for members of the Local Governmental Employees' Retirement System who die while employed after one year of service. This bill will increase the death benefit from one year's salary with maximum of \$20,000 to one year's salary with a minimum of \$25,000 and a maximum of \$50,000

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Retirement System Actuary: Buck Consultants estimates the first year cost will be \$1,646,473.

	2001-02	2002-03	2003-04	2004-05	2005-06
Local Funds	\$1.6M	\$1.8M	\$1.9M	\$2.0M	\$2.1

General Assembly Actuary: Hartman & Associates estimates the first year cost will be \$1,579,269.

	2001-02	2002-03	2003-04	2004-05	2005-06
Local Funds	\$1.6M	\$1.7M	\$1.8M	\$1.9M	\$2.0M

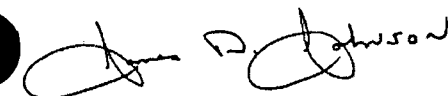
ASSUMPTIONS AND METHODOLOGY: **Local Governmental Employees' Retirement System.** The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 1999 actuarial valuation of the fund. The data included 112,431 active 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

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson



DATE: March 14, 2001



HOUSE BILL 81: Increase Death Benefit/Local Retirement.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: April 4, 2001
Version: First Edition

Introduced by: Rep. Tucker
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

House Bill 81 increase the death benefit for members of the Local Governmental Employees' Retirement System from a maximum of \$20,000 to a minimum of \$25,000 and a maximum of \$50,000.

CURRENT LAW:

Under current law, a member who has completed at least one year of membership in the Retirement System and who dies in service is eligible for a death benefit from the Group Life Insurance Plan, which is administered by the Retirement System. The benefit is payable to the member's designated beneficiary or the member's legal representative, if the beneficiary is not living at the time of the member's death.

The death benefit is equal to the greater of the member's compensation in the preceding calendar year or the greatest compensation earned by the member in a 12-month period within the 24-month period preceding the member's death, *subject to a maximum of \$20,000.*

BILL ANALYSIS:

This bill amends the law to provide that the death benefit payable from the Plan shall be subject to a minimum of \$25,000. and a maximum of \$50,000. All conditions of eligibility remain the same, as does the process for computing the benefit.

This change would conform the death benefits payable on account of membership in the Local Governmental Employees' Retirement System to those provided for members of the Teachers' and State Employees' Retirement System.

This act becomes effective July 1, 2001, and applies to deaths occurring on or after that date.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 4

Short Title: Law Officers' 25-Year Retirement.

(Public)

Sponsors: Representatives Hensley, Blue(Primary Sponsors); Allred, Barefoot, Buchanan, Cansler, Cox, Goodwin, Grady, Johnson, and Sherrill.

Referred to: Rules, Calendar, and Operations of the House.

January 25, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW LAW ENFORCEMENT OFFICERS WHO ARE MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OR THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED BENEFITS AFTER COMPLETING TWENTY-FIVE YEARS OF SERVICE.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000-
2000, but Before July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member shall receive the following service retirement ~~allowance~~allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a, reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after ~~this~~ his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 12%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

- 1 2. The service retirement allowance as computed under
2 G.S. 135-5(b18)(2)a. reduced by five percent (5%) times
3 the difference between 30 years and his creditable
4 service at retirement; or
5 3. If the member's creditable service commenced prior to
6 July 1, 1994, the service retirement allowance equal to
7 the actuarial equivalent of the allowance payable at the
8 age of 60 years as computed in G.S. 135-5(b18)(2)b.
9 d. Notwithstanding the foregoing provisions, any member whose
10 creditable service commenced prior to July 1, 1963, shall not
11 receive less than the benefit provided by G.S. 135-5(b)."

12 **SECTION 2.** G.S. 135-5 is amended by adding a new subsection to read:

13 "(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
14 - Upon retirement from service in accordance with subsection (a) or (a1) above, on or
15 after July 1, 2001, a member shall receive the following service retirement allowance:

16 (1) A member who is a law enforcement officer or an eligible former law
17 enforcement officer shall receive a service retirement allowance
18 computed as follows:

19 a. If the member's service retirement date occurs on or after his
20 55th birthday, and completion of five years of creditable service
21 as a law enforcement officer, or after the completion of 25 years
22 of creditable service, the allowance shall be equal to one and
23 eighty-one hundredths percent (1.81%) of his average final
24 compensation, multiplied by the number of years of his
25 creditable service.

26 b. If the member's service retirement date occurs on or after his
27 50th birthday and before his 55th birthday with 15 or more
28 years of creditable service as a law enforcement officer and
29 prior to the completion of 25 years of creditable service, his
30 retirement allowance shall be equal to the greater of:

31 1. The service retirement allowance payable under G.S.
32 135-5(b19)(1)a. reduced by one-third of one percent (1/3
33 of 1%) thereof for each month by which his retirement
34 date precedes the first day of the month coincident with
35 or next following the month the member would have
36 attained his 55th birthday; or

37 2. The service retirement allowance as computed under
38 G.S. 135-5(b19)(1)a. reduced by five percent (5%) times
39 the difference between 25 years and his creditable
40 service at retirement.

41 (2) A member who is not a law enforcement officer or an eligible former
42 law enforcement officer shall receive a service retirement allowance
43 computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)(2)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5(m) reads as rewritten:

1 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
2 principal beneficiary designated to receive a return of accumulated contributions shall
3 have the right to elect to receive in lieu thereof the reduced retirement allowance
4 provided by Option 2 of subsection (g) above computed by assuming that the member
5 had retired on the first day of the month following the date of his death, provided that
6 the following conditions apply:

- 7 (1) a. The member had attained such age and/or creditable service to
8 be eligible to commence retirement with an early or service
9 retirement allowance, or
10 b. The member had obtained 20 years of creditable service in
11 which case the retirement allowance shall be computed in
12 accordance with ~~G.S. 135-5(b18)(1)b.~~ G.S. 135-5(b19)(1)b. or
13 ~~G.S. 135-5(b18)(2)c.~~ G.S. 135-5(b19)(2)c., notwithstanding
14 the requirement of obtaining age 50.
15 (2) The member had designated as the principal beneficiary to receive a
16 return of his accumulated contributions one and only one person who
17 was living at the time of his death.
18 (3) The member had not instructed the Board of Trustees in writing that he
19 did not wish the provisions of this subsection to apply.

20 For the purpose of this benefit, a member is considered to be in service at the
21 date of his death if his death occurs within 180 days from the last day of his actual
22 service. The last day of actual service shall be determined as provided in subsection (1)
23 of this section. Upon the death of a member in service, the surviving spouse may make
24 all purchases for creditable service as provided for under this Chapter for which the
25 member had made application in writing prior to the date of death, provided that the
26 date of death occurred prior to or within 60 days after notification of the cost to make
27 the purchase. The term "in service" as used in this subsection includes a member in
28 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
29 Chapter."

30 **SECTION 4. G.S. 128-27(b18) reads as rewritten:**

31 "(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000,
32 2000, but Before July 1, 2001. – Upon retirement from service in accordance with
33 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
34 shall receive the following service retirement allowance:

- 35 (1) A member who is a law enforcement officer or an eligible former law
36 enforcement officer shall receive a service retirement allowance
37 computed as follows:
38 a. If the member's service retirement date occurs on or after his
39 55th birthday and completion of five years of creditable service
40 as a law enforcement officer, or after the completion of 30 years
41 of creditable service, the allowance shall be equal to one and
42 seventy-eight hundredths percent (1.78%) of his average final
43 compensation, multiplied by the number of years of his
44 creditable service.

- b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:
 1. The service retirement allowance payable under G.S. 128-27(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
 - a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following

the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b18)(2)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 5. G.S. 128-27 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001.
- Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday and completion of five years of creditable service
as a law enforcement officer, or after the completion of 25 years
of creditable service, the allowance shall be equal to one and
seventy-eight hundredths percent (1.78%) of his average final
compensation, multiplied by the number of years of his
creditable service.

b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and
prior to the completion of 25 years of creditable service, his
retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S.
128-27(b19)(1)a. reduced by one-third of one percent
($\frac{1}{3}$ of 1%) thereof for each month by which his
retirement date precedes the first day of the month
coincident with or next following the month the member
would have attained his 55th birthday; or

2. The service retirement allowance as computed under
G.S. 128-27(b19)(1)a. reduced by five percent (5%)

times the difference between 25 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b19)(2)b.

- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 6. G.S. 128-27(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option two of subsection (g) above computed by assuming that the member had retired on the first day of the month following the date of his death, provided that all three of the following conditions apply:

- (1) a. The member had attained such age and/or creditable service to be eligible to commence retirement with an early or service retirement allowance, or
- b. The member had obtained 20 years of creditable service in which case the retirement allowance shall be computed in accordance with ~~G.S. 128-27(b18)(1)b.~~ G.S. 128-27(b19)(1)b. or ~~G.S. 128-27(b18)(2)c.,~~ G.S. 128-27(b19)(2)c., notwithstanding the requirement of obtaining age 50.
- (2) The member had designated as the principal beneficiary to receive a return of his accumulated contributions one and only one person who is living at the time of his death.
- (3) The member had not instructed the Board of Trustees in writing that he did not wish the provisions of this subsection apply.

For the purpose of this benefit, a member is considered to be in service at the date of his death if his death occurs within 180 days from the last day of his actual service. The last day of actual service shall be determined as provided in subsection (l) of this section. Upon the death of a member in service, the surviving spouse may make all purchases for creditable service as provided for under this Chapter for which the member had made application in writing prior to the date of death, provided that the date of death occurred prior to or within 60 days after notification of the cost to make the purchase."

SECTION 7. G.S. 143-166.41(a) reads as rewritten:

"(a) Notwithstanding any other provision of law, every sworn law-enforcement officer as defined by G.S. 135-1(11b) or G.S. 143-166.30(a)(4) employed by a State department, agency, or institution who qualifies under this section shall receive, beginning on the last day of the month in which he retires on a basic service retirement under the provisions of G.S. 135-5(a) or G.S. 143-166(y), an annual separation allowance equal to eighty-five hundredths percent (0.85%) of the annual equivalent of the base rate of compensation most recently applicable to him for each year of creditable service. The allowance shall be paid in 12 equal installments on the last day of each month. To qualify for the allowance the officer shall:

- (1) Have (i) completed ~~30~~ 25 or more years of creditable service or, (ii) have attained 55 years of age and completed five or more years of creditable service; and

(2) Not have attained 62 years of age; and

(3) Have completed at least five years of continuous service as a law enforcement officer as herein defined immediately preceding a service retirement. Any break in the continuous service required by this subsection because of disability retirement or disability salary continuation benefits shall not adversely affect an officer's qualification to receive the allowance, provided the officer returns to service within 45 days after the disability benefits cease and is otherwise qualified to receive the allowance."

SECTION 8. This act becomes effective July 1, 2001.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 4

SHORT TITLE: Law Officers' 25-Year Retirement

SPONSOR(S): Representative Hensley

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund, Receipts and Local Government Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 25 years of service as a law enforcement officer regardless of age. The bill also reduces the requirement of 30 years to 25 years for the special separation allowance of .85% of salary for each year of service.

EFFECTIVE DATE: July 1, 2001

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

Retirement System Actuary: Buck Consultants estimates the normal cost will increase by .0059% of the payroll of all members of the Teachers' and State Employee's Retirement System. Buck Consultants estimates the cost to fund the accrued liability cost will be .0262% of the payroll of all members.

<u>General Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$423,189	\$448,369	\$475,047	\$503,312	\$533,259
Accrued Liability	<u>\$1,879,247</u>	<u>\$1,991,063</u>	<u>\$2,109,531</u>	<u>\$2,235,048</u>	<u>\$2,368,033</u>
Total General Fund	\$2,302,437	\$2,439,432	\$2,584,578	\$2,738,360	\$2,901,293

<u>Highway Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$21,606	\$22,891	\$24,253	\$25,696	\$27,225
Accrued Liability	<u>\$95,944</u>	<u>\$101,653</u>	<u>\$107,701</u>	<u>\$114,110</u>	<u>\$120,899</u>
Total Highway Fund	\$117,550	\$124,544	\$131,955	\$139,806	\$148,125

<u>Receipt Funds</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$127,564	\$134,325	\$141,444	\$148,941	\$156,834
Accrued Liability	<u>\$566,470</u>	<u>\$596,493</u>	<u>\$628,107</u>	<u>\$661,397</u>	<u>\$696,451</u>
Total Receipt Funds	\$694,034	\$730,818	\$769,551	\$810,337	\$853,285

	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$2,302,437	\$2,439,432	\$2,584,578	\$2,738,360	\$2,901,293
Highway Fund	\$117,550	\$124,544	\$131,955	\$139,806	\$148,125
Receipt Funds	<u>\$694,034</u>	<u>\$730,818</u>	<u>\$769,551</u>	<u>\$810,337</u>	<u>\$853,285</u>
Total Retirement Cost	\$3,114,021	\$3,294,794	\$3,486,084	\$3,688,504	\$3,902,703
Separation Allowance	<u>\$307,000</u>	<u>\$864,000</u>	<u>\$1,261,000</u>	<u>\$1,511,000</u>	<u>\$1,634,000</u>
TOTAL COST	\$3,421,021	\$4,158,794	\$4,747,084	\$5,199,504	\$5,536,703

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase by .010% of the payroll of all members of the Teachers' and State Employee's Retirement System. Hartman & Associates estimates the cost to fund the accrued liability cost will be .025% of the payroll of all members.

<u>General Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$717,270	\$759,948	\$805,164	\$853,072	\$903,829
Accrued Liability	<u>\$1,793,175</u>	<u>\$1,899,869</u>	<u>\$2,012,911</u>	<u>\$2,132,679</u>	<u>\$2,259,574</u>
Total General Fund	\$2,510,445	\$2,659,816	\$2,818,075	\$2,985,751	\$3,163,403

<u>Highway Fund</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$36,620	\$38,799	\$41,107	\$43,553	\$46,145
Accrued Liability	<u>\$91,550</u>	<u>\$96,997</u>	<u>\$102,769</u>	<u>\$108,883</u>	<u>\$115,362</u>
Total Highway Fund	\$128,170	\$135,796	\$143,876	\$152,437	\$161,507

<u>Receipt Funds</u>	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$216,210	\$227,669	\$239,736	\$252,442	\$265,821
Accrued Liability	<u>\$540,525</u>	<u>\$569,173</u>	<u>\$599,339</u>	<u>\$631,104</u>	<u>\$664,552</u>
Total Receipt Funds	\$756,735	\$796,842	\$839,075	\$883,546	\$930,373

	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$2,510,445	\$2,659,816	\$2,818,075	\$2,985,751	\$3,163,403
Highway Fund	\$128,170	\$135,796	\$143,876	\$152,437	\$161,507
Receipt Funds	<u>\$756,735</u>	<u>\$796,842</u>	<u>\$839,075</u>	<u>\$883,546</u>	<u>\$930,373</u>
Total Retirement Cost	\$3,395,350	\$3,592,455	\$3,801,026	\$4,021,733	\$4,255,283
Separation Allowance	<u>\$ 305,770</u>	<u>\$ 827,986</u>	<u>\$1,202,730</u>	<u>\$1,455,489</u>	<u>\$1,736,614</u>
TOTAL COST	\$3,701,120	\$4,420,441	\$5,003,756	\$5,477,222	\$5,991,897

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 5.27% of payroll to 5.91% for a net increase of .64% of the payroll of law enforcement officers. Buck Consultants estimates that the first year annual cost to pay the unfunded accrued liability will be \$4,749,000 based on a 15-year amortization period.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$3,936,000	\$4,189,872	\$4,460,119	\$4,747,796	\$5,054,029
Accrued Liability	<u>\$4,749,000</u>	<u>\$5,055,311</u>	<u>\$5,381,378</u>	<u>\$5,728,477</u>	<u>\$6,097,964</u>
Total Retirement Cost	\$8,685,000	\$9,245,183	\$9,841,497	\$10,476,273	\$11,151,993
Separation Allowance	<u>\$ 717,000</u>	<u>\$2,035,000</u>	<u>\$3,145,000</u>	<u>\$4,045,000</u>	<u>\$4,883,000</u>
Total Local Funds	\$9,402,000	\$11,280,183	\$12,986,497	\$14,521,273	\$16,034,993

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 5.27% of payroll to 5.91% for a net increase of .64% of the payroll of law enforcement officers. They also estimate that the annual cost to pay the unfunded accrued liability will increase .83%.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost Increase	\$3,936,000	\$4,189,872	\$4,460,119	\$4,747,796	\$5,054,029
Accrued Liability	<u>\$5,104,500</u>	<u>\$5,433,740</u>	<u>\$5,784,216</u>	<u>\$6,157,298</u>	<u>\$6,554,444</u>
Total Retirement Cost	\$9,040,500	\$9,623,612	\$10,244,335	\$10,905,095	\$11,608,473
Separation Allowance	<u>\$1,171,048</u>	<u>\$3,074,468</u>	<u>\$4,399,000</u>	<u>\$5,742,029</u>	<u>\$6,780,936</u>
Total Local Funds	\$10,211,548	\$12,698,080	\$14,643,335	\$16,647,124	\$18,389,409

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.

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

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson



DATE: March 2, 2001



HOUSE BILL 4: Law Officers' 25-Year Retirement

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: April 3, 2001
Version: 1st Edition

Introduced by: Representatives Hensley, Blue
Summary by: Theresa Matula
Committee Staff

SUMMARY: *House Bill 4 allows Law Enforcement Officers who are members of the Teachers' and State Employees' Retirement System (TSERS) or the Local Governmental Employees' Retirement System (LGERS) to receive unreduced retirement benefits with twenty-five years of service. The special separation allowance for law enforcement officers is also amended to reflect twenty-five years of service.*

BILL ANALYSIS:

Sections 1, 2 & 3 amend Chapter 135 of the General Statutes regarding the *Teachers' and State Employees' Retirement System (TSERS)*.

Section 1 amends G.S. 135-5(b18) to specify that the benefits outlined under (b18) apply to the Service Retirement Allowance of Members Retiring *on or After July 1, 2000, but Before July 1, 2001*.

Section 2 adds G.S. 135-5(b19) outlining the Service Retirement Allowance of Members Retiring *on or After July 1, 2001*. These amendments allow:

- members who are law enforcement officers, or eligible former law enforcement officers, to receive an unreduced retirement benefit on or after his 55th birthday and completion of five years creditable service as a law enforcement officer, or after the completion of *25 years of creditable service* (previously 30 years); and
- members who are law enforcement officers, or eligible former law enforcement officers, whose retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of *25 years of creditable service* (previously 30 years) to receive a reduced retirement benefit.

Section 3 amends the citations in the *Survivor's Alternate Benefit* section to reflect the amendments to G.S. 135-5(b19)(1)b. and G.S. 135-5(b19)(2)c.

Sections 4, 5, & 6 amend Chapter 128 of the General Statutes regarding the *North Carolina Local Governmental Employee's Retirement System (LGERS)*. The amendments to G.S. 128-27(b18) and the addition of G.S. 128-27(b19) are consistent with those made in Sections 1 and 2 of the bill. Consistent with amendments to Section 3, Section 6 amends the citations in the *Survivor's Alternate Benefit* section to reflect the amendments to G.S. 128-27(b19)(1)b. and G.S. 128-27(b19)(2)c.

Section 7 amends G.S. 143-166.41 regarding the *special separation allowance* paid to every law enforcement officer defined under G.S. 135-1(11b) or G.S. 143-166.30(a)(4). The amendment is a conforming change from 30 years to 25 years of creditable service.

Section 8 states that this act becomes effective July 1, 2001.

Rep. Hensley on House Bill 4, 25-year Retirement for Law Enforcement Officers

With this many officers in the room, I think I can say without contradiction that this is a fantastic bill and that I would like to see everybody in here to vote affirmatively on this bill.

Ladies and gentlemen, before I begin, and if you'll allow me, Mr. Chairman, I'd like to especially welcome several people here—my Chief, Chief Tom Moss from Garner, Sheriff Moose Butler from Fayetteville, and I believe I saw the U.S. Marshall for the Eastern District, Mark Tucker, in the back. Mark, welcome here. But the real stars of this bill are the uniformed officers that you see in here and that you don't see in here—the ones that are out on the beat today protecting you and your families.

Ladies and gentlemen, imagine a job where, when you leave your work station, you have to place a note in your chair that says where you're going and leaves a message to your wife or husband saying, "I love you."

Imagine a job where as you approach a car that you've stopped, you have to put your thumbprint on the left rear fender so that if you're killed in the line of duty, they'll be able to trace that car to the people who ended your life.

Imagine a job whose motto is, "You win if you go home today alive after your shift."

The definition of law enforcement, Ladies and Gentlemen, is one week of boredom followed by twenty minutes of sheer terror. And that's what these Ladies and Gentlemen in here today face on a daily basis. They may ride around the City of Raleigh, the City of Fayetteville, the County of Moore, and they may have no problems for a week—even two weeks—and then comes that odd domestic call where Mary is fussing at Johnny for pushing her and when you go to arrest Johnny, Mary jumps on your back with a knife in her hand.

Imagine that routine traffic stop at 4:00 a.m. in the morning when there're four males inside of a car and a female officer has to approach that car and ask for license and registration and check that tag. Or the drunk and the drug-crazed defendant that's out there that these officers have to face on a sporadic basis. People in this room who are not police officers don't have to worry about random violence. Every once in awhile—about like a comet striking you—random violence strikes a member of this community. But if you take a pair of dice and you roll and you get two sevens in a row, that tells you the likelihood of a police officer getting jumped on or assaulted or spat upon or whatever by somebody on drugs, somebody on alcohol.

Ladies and gentlemen, this bill does something that I think will help police protection in this state for the rest of our lives and through our children's lives. Will it cost money? Yes, it will cost some money. We have a fiscal report or an actuarial report that will show you what it will cost not only for the State of North Carolina but also for each individual jurisdiction. But the benefits far outweigh the cost of this bill. In recruiting and retention,

just in this city and in some others, I am sure—there are cities out West, cities from the Midwest, and cities from the North who are recruiting our officers and offering them 25-year retirement and 20-year retirement to come to that police department and take the 9-months or 10-months of training that we've already paid for in our sheriff departments and in our local police departments and take that to Seattle, or take that to New York, or take that to Miami. We have people recruiting to take our police officers away from us.

Morale. Police officers are a lot like teachers. They don't get paid much. They are in the job because they are dedicated. They are dedicated to law enforcement, they're dedicated to honesty and right, and we depend on them to protect us on a daily basis. The rewards for them are not forty hours a week and a salary. The rewards are that dedication, and the way we can show how that dedication reacts and works for them is to give them a retirement benefit that means something to them.

Inefficiency and effectiveness. Police officers tell me over and over and over again that when you get to be forty years old and you've got a kid in college, you're going to be less likely to chase that 18-year-old down a dark alley when you don't know whether he's got a screwdriver in his hand or a 45 automatic. When you're twenty-one, you're full of vinegar, to clean it up a little bit, and you're a soldier and you enjoy that sort of thing; but when you're forty and forty-five, you've got a wife or a husband or children to look after and you don't tend to do the types of things that need to be done. That's no slap at older officers. It's a matter of truth; it's a matter of practicality.

Producing a 25-year retirement bill out of this committee and out of this legislature will actually reduce costs. It will make it economically effective for officers to retire after twenty-five years and allow younger officers with lower salaries to come in and fill those ranks. So that if you have a lieutenant or a captain who reaches twenty-five year retirement—that's five years before we allow now—he or she can retire at that larger salary, that higher salary, and you can bring in a lower lieutenant or a sergeant into that position and it will actually cost the localities less. It will actually save money if the localities will just give it a chance.

Now every state around us has 25-year retirement for its law enforcement officers—South Carolina, Tennessee, Virginia. And most of the northeastern states and some of the western states have 20-year law enforcement retirement. We are the only state around here that penalizes our law enforcement officers for being good, dedicated people.

Law enforcement officers have only about a 59-year life span. They only have about a five year life span after they reach retirement because of the stress, because of all of the things that call upon them as they do their job to protect us. If they were doing something that wasn't necessary, it would be their choice; but having a good police force is necessary to this state and to every locality in this state.

Ladies and gentlemen, I would ask you, I would beg of you, to show these officers out here and the thousands that couldn't come in here—more than twenty-five thousand in this state—I would ask you to show them that you care about them, you care about the

dedication that they provide, you care about the long shifts, you care about the danger, you care about people spitting upon them, you care about people calling them names, you care and you'll show your dedication to them by the dedication they show you by granting them twenty-five year retirement.

I thank you.

AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**April 11, 2001
Room 415 LOB**

OPENING REMARKS

**Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

**HB 79 25 YEAR RETIREMENT
Representative Tucker, Sponsor**

**HB 80 INCREASE LOCAL RETIREMENT BENEFITS
Representative Tucker, Sponsor**

**HB 333 DEATH BENEFITS TO LEGAL REPRESENTATIVE
Representative Grady, Sponsor**

ADJOURNMENT

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT APRIL 11, 2001

The House Committee on Pensions and Retirement met on Wednesday, April 11, 2001 at 12:00 p.m. in Room 415 of the Legislative Office Building. Members present were Representatives Barefoot and Cox, Cochairs; Representative McCombs, Vice Chair; and Representatives Easterling, Hensley, Oldham, Starnes, Tolson, Wilson, G., and Yongue. The Visitor Registration Sheet is attached.

Representative Barefoot called the meeting to order and introduced the pages serving the committee; Meredith Hatcher of Wake County, sponsored by Representative Hensley, and Reggie Jones of Wake County, sponsored by Representative Blue.

House Bill 333, **Death Benefits to Legal Representative**, sponsored by Representative Grady, was the first bill before the committee. Representative Yongue presented a proposed committee substitute to the Committee and moved for its adoption, motion carried. Representative Grady explained the bill would allow retirees to give death benefits to people other than their spouse. The committee substitute outlined that the retiree must notify the retirement system in writing that his/her benefits are to be designated to a legal representative instead of his/her spouse.

Representative Yongue moved for favorable report to committee substitute, unfavorable to original bill. The motion passed.

House Bill 79, **25-Year Retirement**, was before the Committee for consideration. Representative Tucker, bill sponsor, was recognized to explain the bill. He explained that the bill provides for twenty-five-year retirement for members of the teachers' and state employees' retirement system. It would allow full retirement benefits after the age of 55 with 25 years of credible service. This differs from the existing provision of 30 years of credible service.

Representative Starnes asked for an explanation of the fiscal note. The estimated cost to the state was equivalent to 3.03% of payroll. The cost would be \$53 million per year for local governments because all employees fund the retirement system. Representative Oldham questioned if this would have any effect on the availability of general funds and was told it would reduce the availability substantially.

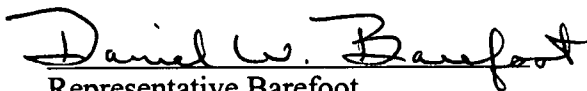
Ellis Hankins, Executive Director of the League of Municipalities, stated that he believed the bill needed significant study and was not feasible at this time. Representative Hensley moved for a favorable report on the bill. Representative Yongue expressed concern as to how the bill would impact the teacher shortage problem. A substitute motion was made by Representative McCombs to withdraw House Bill 79 from today's agenda and place it on the calendar for the next meeting. The motion passed.

House Bill 80, **Increase Local Retirement Benefits**, was explained by Representative Tucker, bill sponsor. He explained that the bill increased the retirement benefits of local government officials from 1.78% to 1.81%, which is the percentage at the state level.

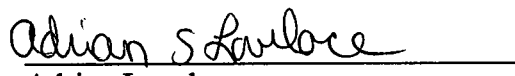
Ellis Hankins, Executive Director of the League of Municipalities, spoke in favor of the bill. He explained that the city and county budgets would not be affected, as funding would come from the retirement system gains.

Representative McCombs moved for a favorable report to the bill, and that it be re-referred to the Committee on Appropriations. The motion passed.

The meeting was adjourned.


Representative Barefoot
Presiding Committee Chair


Jackie Pittman
Committee Assistant


Adrian Lovelace
Transcribing Committee Assistant

Attachments:

Agenda

Visitor Registration Sheet

House Bill 79, Bill Summary, and Actuarial Note

House Bill 80, Bill Summary, and Actuarial Note

House Bill 80 Committee Report

House Bill 333, Bill Summary, and Actuarial Note

House Bill 333 Committee Substitute

House Bill 333 Committee Report

AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**April 11, 2001
Room 415 LOB**

OPENING REMARKS

**Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

**HB 79 25 YEAR RETIREMENT
Representative Tucker, Sponsor**

**HB 80 INCREASE LOCAL RETIREMENT BENEFITS
Representative Tucker, Sponsor**

**HB 333 DEATH BENEFITS TO LEGAL REPRESENTATIVE
Representative Grady, Sponsor**

ADJOURNMENT

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

APRIL 11, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

ELLIS HANKINS	NCLM
John Midgette	NCPBA.
Cam Coker	BP MHL
Crissy Parker	Bone & Associates
Marge Foreman	NCAE
Leil Cahoon	NCAE
Gene Meyer	NCAE
Ardis Watkins	SEANC
BRANDON THOMAS	SEANC
Sherry Meltzer	SEANC
Bobby Duke	Zebulon NC 27597

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

APRIL 11, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Ethel Davis	Electric Cities
Carri Derrick	SEANC
Tracy Brown	SEANC
Lynn Wilson	SEANC
Audrey H. Hallaway	NCAE
JOSEPH M. SANSON	DEPT. OF STATE TREASURER
Michael Williams	" "
Debra Bryan	" "
Marshall Barnes	Department of State Treasurer
John Ayers	NCA SA
Gary Jarrett	DPI.

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

APRIL 11, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME _____

FIRM OR AGENCY AND ADDRESS

David Anders

$$P_T = P_N$$

Frank Lewis

OSBPm

Johnnie Mosley

City of Kinross, Mayor

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

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HOUSE BILL 79

Short Title: 25-Year Retirement.

(Public)

Sponsors: Representatives Tucker; Alexander, Barefoot, Cansler, Coates, Cox, Sherrill, Warner, and Womble.

Referred to: Pensions and Retirement.

February 8, 2001

A BILL TO BE ENTITLED

AN ACT TO PROVIDE FOR TWENTY-FIVE-YEAR RETIREMENT FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000, 2000, but Before July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member shall receive the following service retirement allowance.

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent

- 1 (1/3 of 1%) thereof for each month by which his
2 retirement date precedes the first day of the month
3 coincident with or next following the month the member
4 would have attained his 55th birthday; or
5 2. The service retirement allowance as computed under
6 G.S. 135-5(b18)(1)a. reduced by five percent (5%) times
7 the difference between 30 years and his creditable
8 service at retirement.
- 9 (2) A member who is not a law enforcement officer or an eligible former
10 law enforcement officer shall receive a service retirement allowance
11 computed as follows:
- 12 a. If the member's service retirement date occurs on or after his
13 65th birthday upon the completion of five years of membership
14 service or after the completion of 30 years of creditable service
15 or on or after his 60th birthday upon the completion of 25 years
16 of creditable service, the allowance shall be equal to one and
17 eighty-one hundredths percent (1.81%) of his average final
18 compensation, multiplied by the number of years of creditable
19 service.
- 20 b. If the member's service retirement date occurs after his 60th
21 birthday and before his 65th birthday and prior to his
22 completion of 25 years or more of creditable service, his
23 retirement allowance shall be computed as in G.S.
24 135-5(b18)(2)a. but shall be reduced by one-quarter of one
25 percent (1/4 of 1%) thereof for each month by which his
26 retirement date precedes the first day of the month coincident
27 with or next following his 65th birthday.
- 28 c. If the member's early service retirement date occurs on or after
29 his 50th birthday and before his 60th birthday and after
30 completion of 20 years of creditable service but prior to the
31 completion of 30 years of creditable service, his early service
32 retirement allowance shall be equal to the greater of:
- 33 1. The service retirement allowance as computed under
34 G.S. 135-5(b18)(2)a. but reduced by the sum of
35 five-twelfths of one percent (5/12 of 1%) thereof for
36 each month by which his retirement date precedes the
37 first day of the month coincident with or next following
38 the month the member would have attained his 60th
39 birthday, plus one-quarter of one percent (1/4 of 1%)
40 thereof for each month by which his 60th birthday
41 precedes the first day of the month coincident with or
42 next following his 65th birthday; or
43 2. The service retirement allowance as computed under
44 G.S. 135-5(b18)(2)a. reduced by five percent (5%) times

the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.

- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance:

- (1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

- b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 25 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
2. The service retirement allowance as computed under G.S. 135-5(b19)(1)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement.

- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 25 years of creditable service,

the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 25 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option 2 of subsection (g) above computed by assuming that the member had retired on the first day of the month following the date of his death, provided that the following conditions apply:

- 1 (1) a. The member had attained such age and/or creditable service to
2 be eligible to commence retirement with an early or service
3 retirement allowance, or
4 b. The member had obtained 20 years of creditable service in
5 which case the retirement allowance shall be computed in
6 accordance with G.S. 135-5(b18)(1)b. or G.S. 135-5(b18)(2)c.,
7 G.S. 135-5(b19)(1)b. or G.S. 135-5(b19)(2)c., notwithstanding
8 the requirement of obtaining age 50.
9 (2) The member had designated as the principal beneficiary to receive a
10 return of his accumulated contributions one and only one person who
11 was living at the time of his death.
12 (3) The member had not instructed the Board of Trustees in writing that he
13 did not wish the provisions of this subsection to apply.

14 For the purpose of this benefit, a member is considered to be in service at the date of
15 his death if his death occurs within 180 days from the last day of his actual service. The
16 last day of actual service shall be determined as provided in subsection (1) of this
17 section. Upon the death of a member in service, the surviving spouse may make all
18 purchases for creditable service as provided for under this Chapter for which the
19 member had made application in writing prior to the date of death, provided that the
20 date of death occurred prior to or within 60 days after notification of the cost to make
21 the purchase. The term "in service" as used in this subsection includes a member in
22 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
23 Chapter."

24 **SECTION 4. G.S. 128-27(b18) reads as rewritten:**

25 "(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000.
26 2000, but Before July 1, 2001. – Upon retirement from service in accordance with
27 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
28 shall receive the following service retirement allowance:

- 29 (1) A member who is a law enforcement officer or an eligible former law
30 enforcement officer shall receive a service retirement allowance
31 computed as follows:
32 a. If the member's service retirement date occurs on or after his
33 55th birthday and completion of five years of creditable service
34 as a law enforcement officer, or after the completion of 30 years
35 of creditable service, the allowance shall be equal to one and
36 seventy-eight hundredths percent (1.78%) of his average final
37 compensation, multiplied by the number of years of his
38 creditable service.
39 b. If the member's service retirement date occurs on or after his
40 50th birthday and before his 55th birthday with 15 or more
41 years of creditable service as a law enforcement officer and
42 prior to the completion of 30 years of creditable service, his
43 retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;
 2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b18)(2)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 5. G.S. 128-27 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday and completion of five years of creditable service as a law enforcement officer, or after the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 25 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;

2. The service retirement allowance as computed under G.S. 128-27(b19)(1)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 25 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b19)(2)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 6. G.S. 135-5(m) reads as rewritten:

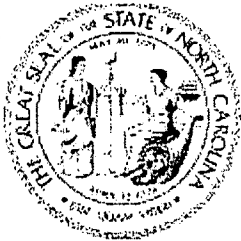
"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance

1 provided by Option two of subsection (g) above computed by assuming that the member
2 had retired on the first day of the month following the date of his death, provided that all
3 three of the following conditions apply:

- 4 (1) a. The member had attained such age and/or creditable service to
5 be eligible to commence retirement with an early or service
6 retirement allowance, or
7 b. The member had obtained 20 years of creditable service in
8 which case the retirement allowance shall be computed in
9 accordance with ~~G.S. 128-27(b18)(1)b. or G.S. 128-~~
10 ~~27(b18)(2)c.,~~ G.S. 128-27(b19)(1)b. or G.S. 128-27(b19)(2)c.,
11 notwithstanding the requirement of obtaining age 50.
12 (2) The member had designated as the principal beneficiary to receive a
13 return of his accumulated contributions one and only one person who
14 is living at the time of his death.
15 (3) The member had not instructed the Board of Trustees in writing that he
16 did not wish the provisions of this subsection apply.

17 For the purpose of this benefit, a member is considered to be in service at the date of
18 his death if his death occurs within 180 days from the last day of his actual service. The
19 last day of actual service shall be determined as provided in subsection (l) of this
20 section. Upon the death of a member in service, the surviving spouse may make all
21 purchases for creditable service as provided for under this Chapter for which the
22 member had made application in writing prior to the date of death, provided that the
23 date of death occurred prior to or within 60 days after notification of the cost to make
24 the purchase."

25 **SECTION 7.** This act becomes effective July 1, 2001.



HOUSE BILL 79: 25-Year Retirement

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: April 11, 2001
Version: 1st Edition

Introduced by: Representative Tucker
Summary by: Theresa Matula
Committee Staff

SUMMARY: *House Bill 79 would allow members of the Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees' Retirement System (LGERS) to receive unreduced retirement benefits with twenty-five years of service.*

BILL ANALYSIS:

Sections 1, 2 & 3 amend Chapter 135 of the General Statutes regarding the *Teachers' and State Employees' Retirement System (TSERS)*.

Section 1 amends G.S. 135-5(b18) to specify that the benefits outlined under (b18) apply to the Service Retirement Allowance of Members Retiring *on or After July 1, 2000, but Before July 1, 2001*.

Section 2 adds G.S. 135-5(b19) outlining the Service Retirement Allowance of Members Retiring *on or After July 1, 2001*. These amendments allow:

- members who are law enforcement officers, or eligible former law enforcement officers, to receive the retirement benefit on or after his 55th birthday and completion of five years creditable service as a law enforcement officer, or after the completion of 25 years of creditable service (currently 30 years); or to receive a reduced benefit if the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years and prior to the completion of 25 years of creditable service (currently 30).
- members who are not law enforcement officers, or eligible former law enforcement officers, to receive the retirement benefit if the retirement date occurs on or after his 65th birthday upon completion of 5 years of membership service, or after the completion of 25 years of creditable service (currently 30); or to receive a reduced benefit if the member's retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years, or if the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 25 years (currently 30) of creditable service.

Section 3 amends the citations in the *Survivor's Alternate Benefit* section to reflect the amendments to G.S. 135-5(b19)(1)b. and G.S. 135-5(b19)(2)c.

Sections 4, 5, & 6 amend Chapter 128 of the General Statutes regarding the *North Carolina Local Governmental Employee's Retirement System (LGERS)*. The amendments to G.S. 128-27(b18) and the addition of G.S. 128-27(b19) are consistent with those made in Sections 1 and 2 of the bill. Consistent with amendments to Section 3, Section 6 amends the citations in the *Survivor's Alternate Benefit* section to reflect the amendments to G.S. 128-27(b19)(1)b. and G.S. 128-27(b19)(2)c.

Section 7 states that this act becomes effective July 1, 2001.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Revised HB-79

SHORT TITLE: 25-Year Retirement

SPONSOR(S): Representative Tucker

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund, Receipts and Local Government Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 25 years of service regardless of age.

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 3.03% 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	\$217.3M	\$230.3M	\$243.9M	\$258.5M	\$273.9M
Highway Fund	\$ 11.1M	\$ 11.7M	\$ 12.5M	\$ 13.2M	\$ 14.0M
Receipt Funds	\$ 65.5M	\$ 69.0M	\$ 72.6M	\$ 76.5M	\$ 80.5M
TOTAL COST	\$293.9M	\$311.0M	\$329.0M	\$348.2M	\$368.4M

General Assembly Actuary: Hartman & Associates estimates the cost to be 2.95% 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	\$211.6M	\$224.2M	\$237.5M	\$251.7M	\$266.6M
Highway Fund	\$ 10.8M	\$ 11.4M	\$ 12.1M	\$ 12.8M	\$ 13.6M
Receipt Funds	\$ 63.8M	\$ 67.2M	\$ 70.7M	\$ 74.5M	\$ 78.4M
TOTAL COST	\$286.2M	\$302.8M	\$320.3M	\$339.0M	\$358.6M

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the cost will be 1.45% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2001-02	2002-03	2003-04	2004-05	2005-06
<u>Total Local Funds</u>	\$53.0M	\$56.4M	\$60.1M	\$63.9M	\$68.1M

General Assembly Actuary: Hartman & Associates estimates the cost will be 1.75% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2001-02	2002-03	2003-04	2004-05	2005-06
<u>Total Local Funds</u>	\$63.9M	\$68.1M	\$72.5M	\$77.2	\$82.1M

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.

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

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson



DATE: March 15, 2001

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 80

Short Title: Increase Local Retirement Benefits.

(Public)

Sponsors: Representatives Tucker; Coates, Womble, Alexander, Cox, and Warner.

Referred to: Pensions and Retirement.

February 8, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO INCREASE BENEFITS FOR MEMBERS OF THE LOCAL
3 GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

4 The General Assembly of North Carolina enacts:

5 **SECTION 1.** G.S. 128-27(b18) reads as rewritten:

6 "(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000.
7 2000, but Before July 1, 2001. – Upon retirement from service in accordance with
8 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
9 shall receive the following service retirement allowance:

10 (1) A member who is a law enforcement officer or an eligible former law
11 enforcement officer shall receive a service retirement allowance
12 computed as follows:

13 a. If the member's service retirement date occurs on or after his
14 55th birthday and completion of five years of creditable service
15 as a law enforcement officer, or after the completion of 30 years
16 of creditable service, the allowance shall be equal to one and
17 seventy-eight hundredths percent (1.78%) of his average final
18 compensation, multiplied by the number of years of his
19 creditable service.

20 b. If the member's service retirement date occurs on or after his
21 50th birthday and before his 55th birthday with 15 or more
22 years of creditable service as a law enforcement officer and
23 prior to the completion of 30 years of creditable service, his
24 retirement allowance shall be equal to the greater of:

25 1. The service retirement allowance payable under G.S.
26 128-27(b18)(1)a. reduced by one-third of one percent
27 (1/3 of 1%) thereof for each month by which his
28 retirement date precedes the first day of the month

coincident with or next following the month the member would have attained his 55th birthday;

2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b18)(2)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 2. G.S. 128-27 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;

2. The service retirement allowance as computed under G.S. 128-27(b19)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and

1 eighty-one hundredths percent (1.81%) of average final
2 compensation, multiplied by the number of years of creditable
3 service.

4 b. If the member's service retirement date occurs after his 60th
5 birthday and before his 65th birthday and prior to his
6 completion of 25 years or more of creditable service, his
7 retirement allowance shall be computed as in G.S. 128-
8 27(b19)(2)a. but shall be reduced by one-quarter of one percent
9 (1/4 of 1%) thereof for each month by which his retirement date
10 precedes the first day of the month coincident with or next
11 following his 65th birthday.

12 c. If the member's early service retirement date occurs on or after
13 his 50th birthday and before his 60th birthday and after
14 completion of 20 years of creditable service but prior to the
15 completion of 30 years of creditable service, his early service
16 retirement allowance shall be equal to the greater of:

17 1. The service retirement allowance as computed under
18 G.S. 128-27(b19)(2)a. but reduced by the sum of five-
19 twelfths of one percent (5/12 of 1%) thereof for each
20 month by which his retirement date precedes the first day
21 of the month coincident with or next following the
22 month the member would have attained his 60th
23 birthday, plus one-quarter of one percent (1/4 of 1%)
24 thereof for each month by which his 60th birthday
25 precedes the first day of the month coincident with or
26 next following his 65th birthday; or

27 2. The service retirement allowance as computed under
28 G.S. 128-27(b19)(2)a. reduced by five percent (5%)
29 times the difference between 30 years and his creditable
30 service at retirement; or

31 3. If the member's creditable service commenced prior to
32 July 1, 1995, the service retirement allowance equal to
33 the actuarial equivalent of the allowance payable at the
34 age of 60 years as computed in G.S. 128-27(b19)(2)b.

35 d. Notwithstanding the foregoing provisions, any member whose
36 creditable service commenced prior to July 1, 1965, shall not
37 receive less than the benefit provided by G.S. 128-27(b)."

38 **SECTION 3. G.S. 128-27(m) reads as rewritten:**

39 **"(m) Survivor's Alternate Benefit. - Upon the death of a member in service, the**
40 **principal beneficiary designated to receive a return of accumulated contributions shall**
41 **have the right to elect to receive in lieu thereof the reduced retirement allowance**
42 **provided by option two of subsection (g) above computed by assuming that the member**
43 **had retired on the first day of the month following the date of his death, provided that all**
44 **three of the following conditions apply:**

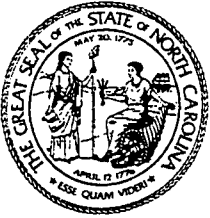
- 1 (1) a. The member had attained such age and/or creditable service to
2 be eligible to commence retirement with an early or service
3 retirement allowance, or
4 b. The member had obtained 20 years of creditable service in
5 which case the retirement allowance shall be computed in
6 accordance with ~~G.S. 128-27(b18)(1)b. or G.S. 128-~~
7 ~~27(b18)(2)c., G.S. 128-27(b19)(1)b. or G.S. 128-27(b19)(2)c.,~~
8 notwithstanding the requirement of obtaining age 50.
9 (2) The member had designated as the principal beneficiary to receive a
10 return of his accumulated contributions one and only one person who
11 is living at the time of his death.
12 (3) The member had not instructed the Board of Trustees in writing that he
13 did not wish the provisions of this subsection apply.

14 For the purpose of this benefit, a member is considered to be in service at the date of
15 his death if his death occurs within 180 days from the last day of his actual service. The
16 last day of actual service shall be determined as provided in subsection (1) of this
17 section. Upon the death of a member in service, the surviving spouse may make all
18 purchases for creditable service as provided for under this Chapter for which the
19 member had made application in writing prior to the date of death, provided that the
20 date of death occurred prior to or within 60 days after notification of the cost to make
21 the purchase."

22 **SECTION 4.** G.S. 128-27 is amended by adding a new subsection to read:

23 "(zz) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2001. –
24 From and after July 1, 2001, the retirement allowance to or on account of beneficiaries
25 on the retirement rolls as of June 1, 2001, shall be increased by one and seven-tenths of
26 one percent (1.7%) of the allowance payable on June 1, 2001. This allowance shall be
27 calculated on the allowance payable and in effect on June 30, 2001, so as not to be
28 compounded on any other increase payable under subsection (k) of this section or
29 otherwise granted by act of the 2001 General Assembly."

30 **SECTION 5.** This act becomes effective July 1, 2001.



HOUSE BILL 80: Increase Local Retirement Benefits.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: April 11, 2001
Version: First Edition

Introduced by: Rep. Tucker
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 80 increases the accrual rate for members of the Local Governmental Employees' Retirement System.*

CURRENT LAW:

Under current law, members who retire from the Local Governmental Employees' Retirement System receive a benefit equal to 1.78% of the member's average final compensation times the members' years of creditable service.

BILL ANALYSIS:

Section 1. This section closes the current formula and limits its applicability to members who retired between July 1, 2000 and June 30, 2001.

Section 2. This section creates the new formula, which applies to members who retire on or after July 1, 2001. These members will receive a benefit equal to 1.81% of the average final compensation time years of creditable service.

Section 3. This section conforms the survivor's alternate benefit so that this benefit will also be computed using the new formula.

Section 4. This section authorizes an increase in the benefits paid to persons who are retired as of June 1, 2001. Retirees will receive an increase of 1.7% of their current allowance on account of the accrual rate change for active members.

This act would become effective July 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

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February 26, 2001

MEMORANDUM

TO: Representative Tucker

FROM: Stanley Moore 
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 80

Re. Increases the accrual rate for active members of the Local Governmental Employees' Retirement System. from 1.78% to 1.81% for each year of service and grants an adjusting increase of 1.7% to retirees as a result of the accrual rate change

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, February 16, 2001
- (3) Actuarial Note. Hartman & Associates, February 21, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 80 (First Edition)

SHORT TITLE: Increase Local Retirement Benefits

SPONSOR(S): Representative Tucker

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: Local Funds

BILL SUMMARY: Increases the accrual rate for active members from 1.78% to 1.81% for each year of service and grants an adjusting increase of 1.7% to retirees as a result of the accrual rate change.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Retirement System Actuary: Buck Consultants estimates the cost of the formula increase and adjustment to retirees to be .62% of payroll.

	2001-02	2002-03	2003-04	2004-05	2005-06
Local Funds	\$22.7m	\$24.1m	\$25.7m	\$27.3m	\$29.1m

General Assembly Actuary: Hartman & Associates estimates the cost of the formula increase and adjustment to retirees to be .55% of payroll.

	2001-02	2002-03	2003-04	2004-05	2005-06
Local Funds	\$20.1m	\$21.4m	\$22.8m	\$24.2m	\$25.8m

There are actuarial gains within the Local System to provide this increase without additional cost to the local governments.

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, 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.

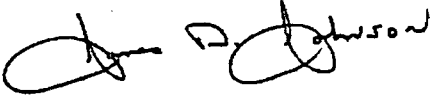
SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson



DATE: February 23, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

February 16, 2001

Mr. Jack Pruitt
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1388

House Bill 80

Dear Mr. Pruitt:

We have received your letter of February 14 regarding House Bill 80 which affects the Local Governmental Employees' Retirement System.

This legislation appears to grant an increase in the defined benefit formula accrual rate, in the Local Governmental Employees' Retirement System, from 1.78% to 1.81%, effective as of July 1, 2001 with a corresponding adjustment in the monthly allowances of existing retirees equal to 1.7% of the retirement allowances in effect on June 1, 2001 payable effective July 1, 2001.

The estimated cost of this proposed legislation on the Local Governmental Employees' Retirement System would be 0.62% of payroll.

As a technical observation, no provisions are made in the bill for the additional funding requirements of these enhanced benefits.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

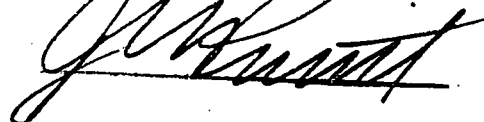
Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

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751 RET02/180

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE.



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

February 21, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Bill 80: An Act to Increase Benefits for Members of
the LGERS System

Dear Mr. Moore:

This bill would amend G.S. 128-27 to increase retirement benefits in the Local Governmental Employees' Retirement System (LGERS).

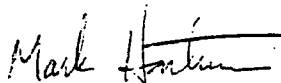
This bill would increase the annual accrual rate from 1.78% to 1.81% for members retiring on or after July 1, 2001. In addition, the bill would increase the retirement allowance by 1.7% for all beneficiaries on the retirement rolls as of June 1, 2001. This act becomes effective July 1, 2001.

The estimated cost of this act for the fiscal year beginning July 1, 2001, expressed as a percentage of payroll is an increase in the normal rate of 0.55%.

This estimate is based on information contained in the most recent actuarial valuation prepared as of December 31, 1999.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

ACTUARIAL NOTE
True & Exact Copy of Original

Certified By Stanley Moore Date: 2-26-01
Legislative Fiscal Research

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report from standing committee is presented:

By Representative(s) Barefoot and Cox Chairs) for the Committee on PENSIONS AND RETIREMENT.

-
- ☐ Committee Substitute for
H.B. 80 A BILL TO BE ENTITLED AN ACT TO INCREASE BENEFITS FOR
MEMBERS OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT
SYSTEM.
- ☐ With a favorable report.
- ☒ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☒
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐
- ☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title, unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation that the committee substitute bill #) be re-referred to the Committee on .)
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

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1

HOUSE BILL 333

Short Title: Death Benefits to Legal Representative.

(Public)

Sponsors: Representative Grady.

Referred to: Pensions and Retirement.

March 1, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PROVISION FOR PAYMENT OF THE DEATH
BENEFIT UNDER THE TEACHERS' AND STATE EMPLOYEES'
RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT
SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT
SYSTEM, AND THE LEGISLATIVE RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5 reads as rewritten:

"(1) Death Benefit Plan. – There is hereby created a Group Life Insurance Plan (hereinafter called the "Plan") which is established as an employee welfare benefit plan that is separate and apart from the Retirement System and under which the members of the Retirement System shall participate and be eligible for group life insurance benefits. Upon receipt of proof, satisfactory to the Board of Trustees in their capacity as trustees under the Group Life Insurance Plan, of the death, in service, of a member who had completed at least one full calendar year of membership in the Retirement System, there shall be paid to such person as he shall have nominated by written designation duly acknowledged and filed with the Board of Trustees, if such person is living at the time of the member's death, otherwise to the member's legal representatives, a death benefit. Such death benefit shall be 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 his death occurs, or
- (2) The greatest compensation on which contributions were made by the member during a 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 his last day of actual service occurs;
- (3), (4) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1049, s. 2.

1 subject to a minimum of twenty-five thousand dollars (\$25,000) and to a maximum of
2 fifty thousand dollars (\$50,000). Such death benefit shall be payable apart and separate
3 from the payment of the member's accumulated contributions under the System on his
4 death pursuant to the provisions of subsection (f) of this section. For the purpose of the
5 Plan, a member shall be deemed to be in service at the date of his death if his death
6 occurs within 180 days from the last day of his actual service.

7 The death benefit provided in this subsection (l) shall not be payable,
8 notwithstanding the member's compliance with all the conditions set forth in the
9 preceding paragraph, if his death occurs

- 10 (1) After December 31, 1968 and after he has attained age 70; or
- 11 (2) After December 31, 1969 and after he has attained age 69; or
- 12 (3) After December 31, 1970 and after he has attained age 68; or
- 13 (4) After December 31, 1971 and after he has attained age 67; or
- 14 (5) After December 31, 1972 and after he has attained age 66; or
- 15 (6) After December 31, 1973 and after he has attained age 65; or
- 16 (7) After December 31, 1978, but before January 1, 1987, and after he has
17 attained age 70.

18 Notwithstanding the above provisions, the death benefit shall be payable on account
19 of the death of any member who died or dies on or after January 1, 1974, but before
20 January 1, 1979, after attaining age 65, if he or she had not yet attained age 65, if he or
21 she had not yet attained age 66, was at the time of death completing the work year for
22 those individuals under specific contract, or during the fiscal year for those individuals
23 not under specific contract, in which he or she attained 65, and otherwise met all
24 conditions for payment of the death benefit.

25 Notwithstanding the above provisions, the Board of Trustees may and is specifically
26 authorized to provide the death benefit according to the terms and conditions otherwise
27 appearing in this Plan in the form of group life insurance, either (i) by purchasing a
28 contract or contracts of group life insurance with any life insurance company or
29 companies licensed and authorized to transact business in this State for the purpose of
30 insuring the lives of members in service, or (ii) by establishing a separate trust fund
31 qualified under Section 501(c)(9) of the Internal Revenue Code of 1954, as amended,
32 for such purpose. To that end the Board of Trustees is authorized, empowered and
33 directed to investigate the desirability of utilizing group life insurance by either of the
34 foregoing methods for the purpose of providing the death benefit. If a separate trust
35 fund is established, it shall be operated in accordance with rules and regulations adopted
36 by the Board of Trustees and all investment earnings on the trust fund shall be credited
37 to such fund.

38 In administration of the death benefit the following shall apply:

- 39 (1) For the purpose of determining eligibility only, in this subsection
40 "calendar year" shall mean any period of 12 consecutive months or, if
41 less, the period covered by an annual contract of employment. For all
42 other purposes in this subsection "calendar year" shall mean the 12
43 months beginning January 1 and ending December 31.
- 44 (2) Last day of actual service shall be:

- a. When employment has been terminated, the last day the member actually worked.
 - b. When employment has not been terminated, the date on which an absent member's sick and annual leave expire, unless he is on approved leave of absence and is in service under the provisions of G.S. 135-4(h).
- (3) For a period when a member is on leave of absence, his status with respect to the death benefit will be determined by the provisions of G.S. 135-4(h).
 - (4) A member on leave of absence from his position as a teacher or State employee for the purpose of serving as a member or officer of the General Assembly shall be deemed to be in service during sessions of the General Assembly and thereby covered by the provisions of the death benefit. The amount of the death benefit for such member shall be the equivalent of the salary to which the member would have been entitled as a teacher or State employee during the 12-month period immediately prior to the month in which death occurred, not to be less than twenty-five thousand dollars (\$25,000) nor to exceed fifty thousand dollars (\$50,000).

The provisions of the Retirement System pertaining to Administration, G.S. 135-6, and management of funds, G.S. 135-7, are hereby made applicable to the Plan.

A member who is a beneficiary of the Disability Income Plan provided for in Article 6 of this Chapter shall be eligible for group life insurance benefits as provided in this subsection, notwithstanding that the member is no longer an employee or teacher or that the member's death occurs after the eligibility period after active service. The basis of the death benefit payable hereunder shall be the higher of the death benefit computed as above or a death benefit based on compensation used in computing the benefit payable under G.S. 135-105 and G.S. 135-106, as may be adjusted for percentage post-disability increases, all subject to the maximum dollar limitation as provided above. A member in receipt of benefits from the Disability Income Plan under the provisions of G.S. 135-112 whose right to a benefit accrued under the former Disability Salary Continuation Plan shall not be covered under the provisions of this paragraph.

Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this subsection, of the death of a retired member of the Retirement System on or after July 1, 1988, but before January 1, 1999, there shall be paid a death benefit to the surviving spouse of the deceased retired member or to the deceased retired member's legal representative if not survived by a spouse; provided the retired member has elected, when first eligible, to make, and has continuously made, in advance of his death required contributions as determined by the Board of Trustees on a fully contributory basis, through retirement allowance deductions or other methods adopted by the Board of Trustees, to a group death benefit trust fund administered by the Board of Trustees separate and apart from the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment in the amount of five thousand dollars (\$5,000) upon the completion of twenty-four months of

1 contributions required under this subsection. Should death occur before the completion
2 of twenty-four months of contributions required under this subsection, the deceased
3 retired member's surviving spouse or legal representative if not survived by a spouse
4 shall be paid the sum of the retired member's contributions required by this subsection
5 plus interest to be determined by the Board of Trustees.

6 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
7 subsection, of the death of a retired member of the Retirement System on or after
8 January 1, 1999, but before July 1, 2001, there shall be paid a death benefit to the
9 surviving spouse of the deceased retired member or to the deceased retired member's
10 legal representative if not survived by a spouse; provided the retired member has
11 elected, when first eligible, to make, and has continuously made, in advance of his death
12 required contributions as determined by the Board of Trustees on a fully contributory
13 basis, through retirement allowance deductions or other methods adopted by the Board
14 of Trustees, to a group death benefit trust fund administered by the Board of Trustees
15 separate and apart from the Retirement System's Annuity Savings Fund and Pension
16 Accumulation Fund. This death benefit shall be a lump-sum payment in the amount of
17 six thousand dollars (\$6,000) upon the completion of 24 months of contributions
18 required under this subsection. Should death occur before the completion of 24 months
19 of contributions required under this subsection, the deceased retired member's surviving
20 spouse or legal representative if not survived by a spouse shall be paid the sum of the
21 retired member's contributions required by this subsection plus interest to be determined
22 by the Board of Trustees.

23 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
24 subsection, of the death of a retired member of the Retirement System on or after July 1,
25 2001, there shall be paid a death benefit to the legal representative of the deceased
26 retired member, provided the retired member has elected, when first eligible, to make,
27 and has continuously made, in advance of his death, required contributions as
28 determined by the Board of Trustees on a fully contributory basis, through retirement
29 allowance deductions or other methods adopted by the Board of Trustees, to a group
30 death benefit trust fund administered by the Board of Trustees separate and apart from
31 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
32 death benefit shall be a lump-sum payment in the amount of six thousand dollars
33 (\$6,000) upon the completion of 24 months of contributions required under this
34 subsection. Should death occur before the completion of 24 months of contributions
35 required under this subsection, the deceased retired member's legal representative shall
36 be paid the sum of the retired member's contributions required by this subsection plus
37 interest to be determined by the Board of Trustees."

38 **SECTION 2.** G.S. 135-64(h) reads as rewritten:

39 "(h) Upon the death of a retired member on or after January 1, 1999, but before
40 July 1, 2001, there shall be paid a death benefit to the surviving spouse of a deceased
41 retired member or to the deceased retired member's legal representative if not survived
42 by a spouse; provided the retired member has elected, when first eligible, to make, and
43 has continuously made, in advance of his death required contributions as determined by
44 the Board of Trustees on a fully contributory basis, through retirement allowance

1 deductions or other methods adopted by the Board of Trustees, to a group death benefit
2 trust fund administered by the Board of Trustees separate and apart from the Retirement
3 System's Annuity Savings Fund and Pension Accumulation Fund. This death benefit
4 shall be a lump-sum payment in the amount of six thousand dollars (\$6,000) upon the
5 completion of 24 months of contributions required under this subsection. Should death
6 occur before the completion of 24 months of contributions required under this
7 subsection, the deceased retired member's surviving spouse or legal representative if not
8 survived by a spouse shall be paid the sum of the retired member's contributions
9 required by this subsection plus interest to be determined by the Board of Trustees."

10 **SECTION 3.** G.S. 135-64 is amended by adding a new subsection to read:

11 "(i) Upon receipt of proof, satisfactory to the Board of Trustees in its capacity
12 under this subsection, of the death of a retired member of the Retirement System on or
13 after July 1, 2001, there shall be paid a death benefit to the legal representative of the
14 deceased retired member, provided the retired member has elected, when first eligible,
15 to make, and has continuously made, in advance of his death, required contributions as
16 determined by the Board of Trustees on a fully contributory basis, through retirement
17 allowance deductions or other methods adopted by the Board of Trustees, to a group
18 death benefit trust fund administered by the Board of Trustees separate and apart from
19 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
20 death benefit shall be a lump-sum payment in the amount of six thousand dollars
21 (\$6,000) upon the completion of 24 months of contributions required under this
22 subsection. Should death occur before the completion of 24 months of contributions
23 required under this subsection, the deceased retired member's legal representative shall
24 be paid the sum of the retired member's contributions required by this subsection plus
25 interest to be determined by the Board of Trustees."

26 **SECTION 4.** G.S. 128-27(l 3) reads as rewritten:

27 "(l 3) Death Benefit for Retired Members. – Upon receipt of proof, satisfactory to
28 the Board of Trustees in its capacity under this subsection, of the death of a retired
29 member of the Retirement System on or after January 1, 1999, but before July 1, 2001,
30 there shall be paid a death benefit to the surviving spouse of the deceased retired
31 member or to the deceased retired member's legal representative if not survived by a
32 spouse; provided the retired member has elected, when first eligible, to make, and has
33 continuously made, in advance of his death required contributions as determined by the
34 Board of Trustees on a fully contributory basis through retirement allowance deductions
35 or other methods adopted by the Board of Trustees, to a group death benefit trust fund
36 administered by the Board of Trustees separate and apart from the Retirement System's
37 Annuity Savings Fund and Pension Accumulation Fund. This death benefit shall be a
38 lump-sum payment in the amount of six thousand dollars (\$6,000) upon the completion
39 of 24 months of contributions required under this subsection. Should death occur before
40 the completion of 24 months of contributions required under this subsection, the
41 deceased retired member's surviving spouse or legal representative if not survived by a
42 spouse shall be paid the sum of the retired member's contributions required by this
43 subsection plus interest to be determined by the Board of Trustees."

44 **SECTION 5.** G.S. 128-27 is amended by adding a new subsection to read:

1 "(14) Upon receipt of proof, satisfactory to the Board of Trustees in its capacity
2 under this subsection, of the death of a retired member of the Retirement System on or
3 after July 1, 2001, there shall be paid a death benefit to the legal representative of the
4 deceased retired member, provided the retired member has elected, when first eligible,
5 to make, and has continuously made, in advance of his death, required contributions as
6 determined by the Board of Trustees on a fully contributory basis, through retirement
7 allowance deductions or other methods adopted by the Board of Trustees, to a group
8 death benefit trust fund administered by the Board of Trustees separate and apart from
9 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
10 death benefit shall be a lump-sum payment in the amount of six thousand dollars
11 (\$6,000) upon the completion of 24 months of contributions required under this
12 subsection. Should death occur before the completion of 24 months of contributions
13 required under this subsection, the deceased retired member's legal representative shall
14 be paid the sum of the retired member's contributions required by this subsection plus
15 interest to be determined by the Board of Trustees."

16 **SECTION 6.** G.S. 120-4.27 reads as rewritten:

17 **"§ 120-4.27. Death benefit.**

18 The designated beneficiary of a member who dies while in service after completing
19 one year of creditable service shall receive a lump-sum payment of an amount equal to
20 the deceased member's highest annual salary, to a maximum of fifteen thousand dollars
21 (\$15,000). For purposes of this death benefit "in service" means currently serving as a
22 member of the North Carolina General Assembly.

23 The death benefit provided by this section shall be designated a group life insurance
24 benefit payable under an employee welfare benefit plan that is separate and apart from
25 the Retirement System but under which the members of the Retirement System shall
26 participate and be eligible for group life insurance benefits. The Board of Trustees is
27 authorized to provide the death benefit in the form of group life insurance either by
28 purchasing a contract or contracts of group life insurance with any life insurance
29 company or companies licensed and authorized to transact business in the State of North
30 Carolina for the purpose of insuring the lives of qualified members in service, or by
31 establishing or affiliating with a separate trust fund qualified under Section 501(c)(9) of
32 the Internal Revenue Code of 1954, as amended.

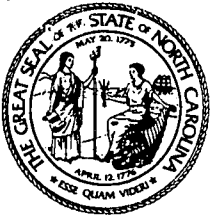
33 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
34 member of the Retirement System or Retirement Fund on or after July 1, 1988, but
35 before January 1, 1999, there shall be paid a death benefit to the surviving spouse of a
36 deceased retired member, or to the deceased retired member's legal representative if not
37 survived by a spouse; provided the retired member has elected, when first eligible, to
38 make, and has continuously made, in advance of his death required contributions as
39 determined by the Retirement System on a fully contributory basis, through retirement
40 allowance deductions or other methods adopted by the Retirement System, to a group
41 death benefit trust fund administered by the Board of Trustees separate and apart from
42 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
43 death benefit shall be a lump-sum payment in the amount of five thousand dollars
44 (\$5,000) upon the completion of twenty-four months of contributions required under

1 this subsection. Should death occur before the completion of twenty-four months of
2 contributions required under this subsection, the deceased retired member's surviving
3 spouse or legal representative if not survived by a spouse shall be paid the sum of the
4 retired member's contributions required by this subsection plus interest to be determined
5 by the Board of Trustees.

6 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
7 member of the Retirement System or Retirement Fund on or after January 1, 1999, but
8 before July 1, 2001, there shall be paid a death benefit to the surviving spouse of a
9 deceased retired member, or to the deceased retired member's legal representative if not
10 survived by a spouse; provided the retired member has elected, when first eligible, to
11 make, and has continuously made, in advance of his death required contributions as
12 determined by the Retirement System on a fully contributory basis, through retirement
13 allowance deductions or other methods adopted by the Retirement System, to a group
14 death benefit trust fund administered by the Board of Trustees separate and apart from
15 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
16 death benefit shall be a lump-sum payment in the amount of six thousand dollars
17 (\$6,000) upon the completion of 24 months of contributions required under this
18 subsection. Should death occur before the completion of 24 months of contributions
19 required under this subsection, the deceased retired member's surviving spouse or legal
20 representative if not survived by a spouse shall be paid the sum of the retired member's
21 contributions required by this subsection plus interest to be determined by the Board of
22 Trustees.

23 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
24 subsection, of the death of a retired member of the Retirement System on or after July 1,
25 2001, there shall be paid a death benefit to the legal representative of the deceased
26 retired member, provided the retired member has elected, when first eligible, to make,
27 and has continuously made, in advance of his death, required contributions as
28 determined by the Board of Trustees on a fully contributory basis, through retirement
29 allowance deductions or other methods adopted by the Board of Trustees, to a group
30 death benefit trust fund administered by the Board of Trustees separate and apart from
31 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
32 death benefit shall be a lump-sum payment in the amount of six thousand dollars
33 (\$6,000) upon the completion of 24 months of contributions required under this
34 subsection. Should death occur before the completion of 24 months of contributions
35 required under this subsection, the deceased retired member's legal representative shall
36 be paid the sum of the retired member's contributions required by this subsection plus
37 interest to be determined by the Board of Trustees."

38 **SECTION 7.** This act becomes effective July 1, 2001.



HOUSE BILL 333: Death Benefits to Legal Representative.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: April 11, 2001
Version: Proposed Committee Substitute
(H333-CSRO-5)

Introduced by: Rep. Grady
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

The proposed committee substitute for House Bill 333 amends the laws governing the death benefit plan for retirees of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System to allow the payment of the death benefit to a legal representative rather than the spouse.

CURRENT LAW:

Under current law, a public retiree can make an election, at retirement, to pay contributions, in an amount determined by the Board of Trustees, to a group death benefit trust fund. The benefit payable at the retiree's death is a lump-sum payment of \$6,000, provided the retiree has made the required contributions for 24 months prior to death.

The benefit is payable only to the retiree's surviving spouse, unless the retiree is not survived by a spouse, in which case, the benefit is payable to the retiree's legal representative.

BILL ANALYSIS:

The proposed committee substitute amends the law to allow a retiree to instruct the Retirement System to pay the death benefit to the retiree's legal representative, even if the retiree is survived by a spouse. The retiree must instruct the Retirement System, in writing, prior to his or her death, of the desire to have the benefit paid to the legal representative, instead of the spouse.

This act would become effective July 1, 2001.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 333

SHORT TITLE: Death Benefits to Legal Representative

SPONSOR(S): Representative Grady

SYSTEM OR PROGRAM AFFECTED: The Retirees' Contributory Death Benefit Plan

BILL SUMMARY: Amends the Death Benefit Plan for retirees of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System to allow the payment to the legal representative of the retiree instead of the spouse.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: No cost.

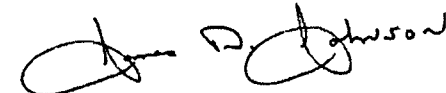
ASSUMPTIONS AND METHODOLOGY: **The Retirees' Contributory Death Benefit Plan:** The actuarial valuation of the Retirees' Contributory Death Benefit Plan as of December 31, 1999 shows that the Plan has liabilities of \$74,400,283. The Plan has assets of \$66,077,075. Prospective contributions of participants eligible for benefits (those with two or more years of coverage) have a value of \$47,967,811. The total present and prospective assets amount to \$114,044,886, which exceeds the liability of \$74,400,283 by \$39,644,603. On the basis of the calculation, the present contribution rates appear to be sufficient support the benefits of the Plan, and the necessary reserves are being accumulated.

SOURCES OF DATA: Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: March 15, 2001

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

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HOUSE BILL 333
PROPOSED COMMITTEE SUBSTITUTE H333-CSRO-5 [v.1]

4/10/2001 8:26:48 PM

Short Title: Death Benefits to Legal Representative.

(Public)

Sponsors:

Referred to:

March 1, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PROVISION FOR PAYMENT OF THE DEATH BENEFIT UNDER THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(1) reads as rewritten:

"(1) Death Benefit Plan. – There is hereby created a Group Life Insurance Plan (hereinafter called the "Plan") which is established as an employee welfare benefit plan that is separate and apart from the Retirement System and under which the members of the Retirement System shall participate and be eligible for group life insurance benefits. Upon receipt of proof, satisfactory to the Board of Trustees in their capacity as trustees under the Group Life Insurance Plan, of the death, in service, of a member who had completed at least one full calendar year of membership in the Retirement System, there shall be paid to such person as he shall have nominated by written designation duly acknowledged and filed with the Board of Trustees, if such person is living at the time of the member's death, otherwise to the member's legal representatives, a death benefit. Such death benefit shall be 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 his death occurs, or
- (2) The greatest compensation on which contributions were made by the member during a 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 his last day of actual service occurs;
- (3), (4) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1049, s. 2.

1 subject to a minimum of twenty-five thousand dollars (\$25,000) and to a maximum of
2 fifty thousand dollars (\$50,000). Such death benefit shall be payable apart and separate
3 from the payment of the member's accumulated contributions under the System on his
4 death pursuant to the provisions of subsection (f) of this section. For the purpose of the
5 Plan, a member shall be deemed to be in service at the date of his death if his death
6 occurs within 180 days from the last day of his actual service.

7 The death benefit provided in this subsection (l) shall not be payable,
8 notwithstanding the member's compliance with all the conditions set forth in the
9 preceding paragraph, if his death occurs

10 (1) After December 31, 1968 and after he has attained age 70; or

11 (2) After December 31, 1969 and after he has attained age 69; or

12 (3) After December 31, 1970 and after he has attained age 68; or

13 (4) After December 31, 1971 and after he has attained age 67; or

14 (5) After December 31, 1972 and after he has attained age 66; or

15 (6) After December 31, 1973 and after he has attained age 65; or

16 (7) After December 31, 1978, but before January 1, 1987, and after he has
17 attained age 70.

18 Notwithstanding the above provisions, the death benefit shall be payable on account
19 of the death of any member who died or dies on or after January 1, 1974, but before
20 January 1, 1979, after attaining age 65, if he or she had not yet attained age 65, if he or
21 she had not yet attained age 66, was at the time of death completing the work year for
22 those individuals under specific contract, or during the fiscal year for those individuals
23 not under specific contract, in which he or she attained 65, and otherwise met all
24 conditions for payment of the death benefit.

25 Notwithstanding the above provisions, the Board of Trustees may and is specifically
26 authorized to provide the death benefit according to the terms and conditions otherwise
27 appearing in this Plan in the form of group life insurance, either (i) by purchasing a
28 contract or contracts of group life insurance with any life insurance company or
29 companies licensed and authorized to transact business in this State for the purpose of
30 insuring the lives of members in service, or (ii) by establishing a separate trust fund
31 qualified under Section 501(c)(9) of the Internal Revenue Code of 1954, as amended,
32 for such purpose. To that end the Board of Trustees is authorized, empowered and
33 directed to investigate the desirability of utilizing group life insurance by either of the
34 foregoing methods for the purpose of providing the death benefit. If a separate trust
35 fund is established, it shall be operated in accordance with rules and regulations adopted
36 by the Board of Trustees and all investment earnings on the trust fund shall be credited
37 to such fund.

38 In administration of the death benefit the following shall apply:

39 (1) For the purpose of determining eligibility only, in this subsection
40 "calendar year" shall mean any period of 12 consecutive months or, if
41 less, the period covered by an annual contract of employment. For all
42 other purposes in this subsection "calendar year" shall mean the 12
43 months beginning January 1 and ending December 31.

- 1 (2) Last day of actual service shall be:
2 a. When employment has been terminated, the last day the
3 member actually worked.
4 b. When employment has not been terminated, the date on which
5 an absent member's sick and annual leave expire, unless he is
6 on approved leave of absence and is in service under the
7 provisions of G.S. 135-4(h).
8 (3) For a period when a member is on leave of absence, his status with
9 respect to the death benefit will be determined by the provisions of
10 G.S. 135-4(h).
11 (4) A member on leave of absence from his position as a teacher or State
12 employee for the purpose of serving as a member or officer of the
13 General Assembly shall be deemed to be in service during sessions of
14 the General Assembly and thereby covered by the provisions of the
15 death benefit. The amount of the death benefit for such member shall
16 be the equivalent of the salary to which the member would have been
17 entitled as a teacher or State employee during the 12-month period
18 immediately prior to the month in which death occurred, not to be less
19 than twenty-five thousand dollars (\$25,000) nor to exceed fifty
20 thousand dollars (\$50,000).

21 The provisions of the Retirement System pertaining to Administration, G.S. 135-6,
22 and management of funds, G.S. 135-7, are hereby made applicable to the Plan.

23 A member who is a beneficiary of the Disability Income Plan provided for in Article
24 6 of this Chapter shall be eligible for group life insurance benefits as provided in this
25 subsection, notwithstanding that the member is no longer an employee or teacher or that
26 the member's death occurs after the eligibility period after active service. The basis of
27 the death benefit payable hereunder shall be the higher of the death benefit computed as
28 above or a death benefit based on compensation used in computing the benefit payable
29 under G.S. 135-105 and G.S. 135-106, as may be adjusted for percentage post-disability
30 increases, all subject to the maximum dollar limitation as provided above. A member in
31 receipt of benefits from the Disability Income Plan under the provisions of G.S.
32 135-112 whose right to a benefit accrued under the former Disability Salary
33 Continuation Plan shall not be covered under the provisions of this paragraph.

34 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
35 subsection, of the death of a retired member of the Retirement System on or after July 1,
36 1988, but before January 1, 1999, there shall be paid a death benefit to the surviving
37 spouse of the deceased retired member or to the deceased retired member's legal
38 representative if not survived by a spouse; provided the retired member has elected,
39 when first eligible, to make, and has continuously made, in advance of his death
40 required contributions as determined by the Board of Trustees on a fully contributory
41 basis, through retirement allowance deductions or other methods adopted by the Board
42 of Trustees, to a group death benefit trust fund administered by the Board of Trustees
43 separate and apart from the Retirement System's Annuity Savings Fund and Pension

1 Accumulation Fund. This death benefit shall be a lump-sum payment in the amount of
2 five thousand dollars (\$5,000) upon the completion of twenty-four months of
3 contributions required under this subsection. Should death occur before the completion
4 of twenty-four months of contributions required under this subsection, the deceased
5 retired member's surviving spouse or legal representative if not survived by a spouse
6 shall be paid the sum of the retired member's contributions required by this subsection
7 plus interest to be determined by the Board of Trustees.

8 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
9 subsection, of the death of a retired member of the Retirement System on or after
10 January 1, 1999, there shall be paid a death benefit to the surviving spouse of the
11 deceased retired member or to the deceased retired member's legal representative if not
12 survived by a spouse; provided the retired member has elected, when first eligible, to
13 make, and has continuously made, in advance of his death required contributions as
14 determined by the Board of Trustees on a fully contributory basis, through retirement
15 allowance deductions or other methods adopted by the Board of Trustees, to a group
16 death benefit trust fund administered by the Board of Trustees separate and apart from
17 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
18 death benefit shall be a lump-sum payment in the amount of six thousand dollars
19 (\$6,000) upon the completion of 24 months of contributions required under this
20 subsection. Should death occur before the completion of 24 months of contributions
21 required under this subsection, the deceased retired member's surviving spouse or legal
22 representative if not survived by a spouse shall be paid the sum of the retired member's
23 contributions required by this subsection plus interest to be determined by the Board of
24 Trustees. Payment of this lump-sum amount shall be made to the deceased retired
25 member's surviving spouse or to the member's legal representative if the member is not
26 survived by a spouse, provided the deceased retired member had not, prior to the
27 member's death, instructed the Board of Trustees in writing that the member did not
28 want the lump-sum payment made to the member's surviving spouse, and that payment
29 should be paid to the member's legal representative as if the member were not survived
30 by a spouse."

31 **SECTION 2.** G.S. 135-64(h) reads as rewritten:

32 "(h) Upon the death of a retired member on or after January 1, 1999, there shall be
33 paid a death benefit to the surviving spouse of a deceased retired member or to the
34 deceased retired member's legal representative if not survived by a spouse; provided the
35 retired member has elected, when first eligible, to make, and has continuously made, in
36 advance of his death required contributions as determined by the Board of Trustees on a
37 fully contributory basis, through retirement allowance deductions or other methods
38 adopted by the Board of Trustees, to a group death benefit trust fund administered by
39 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
40 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
41 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
42 contributions required under this subsection. Should death occur before the completion
43 of 24 months of contributions required under this subsection, the deceased retired

1 member's surviving spouse or legal representative if not survived by a spouse shall be
2 paid the sum of the retired member's contributions required by this subsection plus
3 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
4 shall be made to the deceased retired member's surviving spouse, or to the member's
5 legal representative if the member is not survived by a spouse provided the deceased
6 retired member had not, prior to the member's death, instructed the Board of Trustees in
7 writing that the member did not want the lump-sum payment made to the member's
8 surviving spouse, and that payment should be paid to the member's legal representative
9 as if the member were not survived by a spouse."

10 **SECTION 3.** G.S. 128-27(13) reads as rewritten:

11 "(13) Death Benefit for Retired Members. – Upon receipt of proof, satisfactory to
12 the Board of Trustees in its capacity under this subsection, of the death of a retired
13 member of the Retirement System on or after January 1, 1999, there shall be paid a
14 death benefit to the surviving spouse of the deceased retired member or to the deceased
15 retired member's legal representative if not survived by a spouse; provided the retired
16 member has elected, when first eligible, to make, and has continuously made, in
17 advance of his death required contributions as determined by the Board of Trustees on a
18 fully contributory basis through retirement allowance deductions or other methods
19 adopted by the Board of Trustees, to a group death benefit trust fund administered by
20 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
21 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
22 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
23 contributions required under this subsection. Should death occur before the completion
24 of 24 months of contributions required under this subsection, the deceased retired
25 member's surviving spouse or legal representative if not survived by a spouse shall be
26 paid the sum of the retired member's contributions required by this subsection plus
27 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
28 shall be made to the deceased retired member's surviving spouse or to the member's
29 legal representative if the member is not survived by a spouse, provided the deceased
30 retired member had not, prior to the member's death, instructed the Board of Trustees in
31 writing that the member did not want the lump-sum payment made to the member's
32 surviving spouse, and that payment should be paid to the member's legal representative
33 as if the member were not survived by a spouse."

34 **SECTION 4.** G.S. 120-4.27 reads as rewritten:

35 **"§ 120-4.27. Death benefit.**

36 The designated beneficiary of a member who dies while in service after completing
37 one year of creditable service shall receive a lump-sum payment of an amount equal to
38 the deceased member's highest annual salary, to a maximum of fifteen thousand dollars
39 (\$15,000). For purposes of this death benefit "in service" means currently serving as a
40 member of the North Carolina General Assembly.

41 The death benefit provided by this section shall be designated a group life insurance
42 benefit payable under an employee welfare benefit plan that is separate and apart from
43 the Retirement System but under which the members of the Retirement System shall

1 participate and be eligible for group life insurance benefits. The Board of Trustees is
2 authorized to provide the death benefit in the form of group life insurance either by
3 purchasing a contract or contracts of group life insurance with any life insurance
4 company or companies licensed and authorized to transact business in the State of North
5 Carolina for the purpose of insuring the lives of qualified members in service, or by
6 establishing or affiliating with a separate trust fund qualified under Section 501(c)(9) of
7 the Internal Revenue Code of 1954, as amended.

8 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
9 member of the Retirement System or Retirement Fund on or after July 1, 1988, but
10 before January 1, 1999, there shall be paid a death benefit to the surviving spouse of a
11 deceased retired member, or to the deceased retired member's legal representative if not
12 survived by a spouse; provided the retired member has elected, when first eligible, to
13 make, and has continuously made, in advance of his death required contributions as
14 determined by the Retirement System on a fully contributory basis, through retirement
15 allowance deductions or other methods adopted by the Retirement System, to a group
16 death benefit trust fund administered by the Board of Trustees separate and apart from
17 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
18 death benefit shall be a lump-sum payment in the amount of five thousand dollars
19 (\$5,000) upon the completion of twenty-four months of contributions required under
20 this subsection. Should death occur before the completion of twenty-four months of
21 contributions required under this subsection, the deceased retired member's surviving
22 spouse or legal representative if not survived by a spouse shall be paid the sum of the
23 retired member's contributions required by this subsection plus interest to be determined
24 by the Board of Trustees.

25 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
26 member of the Retirement System or Retirement Fund on or after January 1, 1999, there
27 shall be paid a death benefit to the surviving spouse of a deceased retired member, or to
28 the deceased retired member's legal representative if not survived by a spouse; provided
29 the retired member has elected, when first eligible, to make, and has continuously made,
30 in advance of his death required contributions as determined by the Retirement System
31 on a fully contributory basis, through retirement allowance deductions or other methods
32 adopted by the Retirement System, to a group death benefit trust fund administered by
33 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
34 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
35 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
36 contributions required under this subsection. Should death occur before the completion
37 of 24 months of contributions required under this subsection, the deceased retired
38 member's surviving spouse or legal representative if not survived by a spouse shall be
39 paid the sum of the retired member's contributions required by this subsection plus
40 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
41 shall be made to the deceased retired member's surviving spouse or to the member's
42 legal representative if the member is not survived by a spouse, provided the deceased
43 retired member had not, prior to the member's death, instructed the Board of Trustees in

1 writing that the member did not want the lump-sum payment made to the member's
2 surviving spouse, and that payment should be paid to the member's legal representative
3 as if the member were not survived by a spouse."

4 **SECTION 7.** This act becomes effective July 1, 2001.
5

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 333
PROPOSED COMMITTEE SUBSTITUTE H333-CSRO-5 [v.0]

4/10/2001 6:55:19 PM

Short Title: Death Benefits to Legal Representative.

(Public)

Sponsors:

Referred to:

March 1, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PROVISION FOR PAYMENT OF THE DEATH
BENEFIT UNDER THE TEACHERS' AND STATE EMPLOYEES'
RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT
SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT
SYSTEM, AND THE LEGISLATIVE RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(1) reads as rewritten:

"(1) Death Benefit Plan. – There is hereby created a Group Life Insurance Plan (hereinafter called the "Plan") which is established as an employee welfare benefit plan that is separate and apart from the Retirement System and under which the members of the Retirement System shall participate and be eligible for group life insurance benefits. Upon receipt of proof, satisfactory to the Board of Trustees in their capacity as trustees under the Group Life Insurance Plan, of the death, in service, of a member who had completed at least one full calendar year of membership in the Retirement System, there shall be paid to such person as he shall have nominated by written designation duly acknowledged and filed with the Board of Trustees, if such person is living at the time of the member's death, otherwise to the member's legal representatives, a death benefit. Such death benefit shall be 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 his death occurs, or
- (2) The greatest compensation on which contributions were made by the member during a 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 his last day of actual service occurs;
- (3), (4) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1049, s. 2.

1 subject to a minimum of twenty-five thousand dollars (\$25,000) and to a maximum of
2 fifty thousand dollars (\$50,000). Such death benefit shall be payable apart and separate
3 from the payment of the member's accumulated contributions under the System on his
4 death pursuant to the provisions of subsection (f) of this section. For the purpose of the
5 Plan, a member shall be deemed to be in service at the date of his death if his death
6 occurs within 180 days from the last day of his actual service.

7 The death benefit provided in this subsection (l) shall not be payable,
8 notwithstanding the member's compliance with all the conditions set forth in the
9 preceding paragraph, if his death occurs

- 10 (1) After December 31, 1968 and after he has attained age 70; or
- 11 (2) After December 31, 1969 and after he has attained age 69; or
- 12 (3) After December 31, 1970 and after he has attained age 68; or
- 13 (4) After December 31, 1971 and after he has attained age 67; or
- 14 (5) After December 31, 1972 and after he has attained age 66; or
- 15 (6) After December 31, 1973 and after he has attained age 65; or
- 16 (7) After December 31, 1978, but before January 1, 1987, and after he has
17 attained age 70.

18 Notwithstanding the above provisions, the death benefit shall be payable on account
19 of the death of any member who died or dies on or after January 1, 1974, but before
20 January 1, 1979, after attaining age 65, if he or she had not yet attained age 65, if he or
21 she had not yet attained age 66, was at the time of death completing the work year for
22 those individuals under specific contract, or during the fiscal year for those individuals
23 not under specific contract, in which he or she attained 65, and otherwise met all
24 conditions for payment of the death benefit.

25 Notwithstanding the above provisions, the Board of Trustees may and is specifically
26 authorized to provide the death benefit according to the terms and conditions otherwise
27 appearing in this Plan in the form of group life insurance, either (i) by purchasing a
28 contract or contracts of group life insurance with any life insurance company or
29 companies licensed and authorized to transact business in this State for the purpose of
30 insuring the lives of members in service, or (ii) by establishing a separate trust fund
31 qualified under Section 501(c)(9) of the Internal Revenue Code of 1954, as amended,
32 for such purpose. To that end the Board of Trustees is authorized, empowered and
33 directed to investigate the desirability of utilizing group life insurance by either of the
34 foregoing methods for the purpose of providing the death benefit. If a separate trust
35 fund is established, it shall be operated in accordance with rules and regulations adopted
36 by the Board of Trustees and all investment earnings on the trust fund shall be credited
37 to such fund.

38 In administration of the death benefit the following shall apply:

- 39 (1) For the purpose of determining eligibility only, in this subsection
40 "calendar year" shall mean any period of 12 consecutive months or, if
41 less, the period covered by an annual contract of employment. For all
42 other purposes in this subsection "calendar year" shall mean the 12
43 months beginning January 1 and ending December 31.

- 1 (2) Last day of actual service shall be:
- 2 a. When employment has been terminated, the last day the
- 3 member actually worked.
- 4 b. When employment has not been terminated, the date on which
- 5 an absent member's sick and annual leave expire, unless he is
- 6 on approved leave of absence and is in service under the
- 7 provisions of G.S. 135-4(h).
- 8 (3) For a period when a member is on leave of absence, his status with
- 9 respect to the death benefit will be determined by the provisions of
- 10 G.S. 135-4(h).
- 11 (4) A member on leave of absence from his position as a teacher or State
- 12 employee for the purpose of serving as a member or officer of the
- 13 General Assembly shall be deemed to be in service during sessions of
- 14 the General Assembly and thereby covered by the provisions of the
- 15 death benefit. The amount of the death benefit for such member shall
- 16 be the equivalent of the salary to which the member would have been
- 17 entitled as a teacher or State employee during the 12-month period
- 18 immediately prior to the month in which death occurred, not to be less
- 19 than twenty-five thousand dollars (\$25,000) nor to exceed fifty
- 20 thousand dollars (\$50,000).

21 The provisions of the Retirement System pertaining to Administration, G.S. 135-6,

22 and management of funds, G.S. 135-7, are hereby made applicable to the Plan.

23 A member who is a beneficiary of the Disability Income Plan provided for in Article

24 6 of this Chapter shall be eligible for group life insurance benefits as provided in this

25 subsection, notwithstanding that the member is no longer an employee or teacher or that

26 the member's death occurs after the eligibility period after active service. The basis of

27 the death benefit payable hereunder shall be the higher of the death benefit computed as

28 above or a death benefit based on compensation used in computing the benefit payable

29 under G.S. 135-105 and G.S. 135-106, as may be adjusted for percentage post-disability

30 increases, all subject to the maximum dollar limitation as provided above. A member in

31 receipt of benefits from the Disability Income Plan under the provisions of G.S.

32 135-112 whose right to a benefit accrued under the former Disability Salary

33 Continuation Plan shall not be covered under the provisions of this paragraph.

34 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this

35 subsection, of the death of a retired member of the Retirement System on or after July 1,

36 1988, but before January 1, 1999, there shall be paid a death benefit to the surviving

37 spouse of the deceased retired member or to the deceased retired member's legal

38 representative if not survived by a spouse; provided the retired member has elected,

39 when first eligible, to make, and has continuously made, in advance of his death

40 required contributions as determined by the Board of Trustees on a fully contributory

41 basis, through retirement allowance deductions or other methods adopted by the Board

42 of Trustees, to a group death benefit trust fund administered by the Board of Trustees

43 separate and apart from the Retirement System's Annuity Savings Fund and Pension

1 Accumulation Fund. This death benefit shall be a lump-sum payment in the amount of
2 five thousand dollars (\$5,000) upon the completion of twenty-four months of
3 contributions required under this subsection. Should death occur before the completion
4 of twenty-four months of contributions required under this subsection, the deceased
5 retired member's surviving spouse or legal representative if not survived by a spouse
6 shall be paid the sum of the retired member's contributions required by this subsection
7 plus interest to be determined by the Board of Trustees.

8 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
9 subsection, of the death of a retired member of the Retirement System on or after
10 January 1, 1999, there shall be paid a death benefit to the surviving spouse of the
11 deceased retired member or to the deceased retired member's legal representative if not
12 survived by a spouse; provided the retired member has elected, when first eligible, to
13 make, and has continuously made, in advance of his death required contributions as
14 determined by the Board of Trustees on a fully contributory basis, through retirement
15 allowance deductions or other methods adopted by the Board of Trustees, to a group
16 death benefit trust fund administered by the Board of Trustees separate and apart from
17 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
18 death benefit shall be a lump-sum payment in the amount of six thousand dollars
19 (\$6,000) upon the completion of 24 months of contributions required under this
20 subsection. Should death occur before the completion of 24 months of contributions
21 required under this subsection, the deceased retired member's surviving spouse or legal
22 representative if not survived by a spouse shall be paid the sum of the retired member's
23 contributions required by this subsection plus interest to be determined by the Board of
24 Trustees. Payment of this lump-sum amount shall be made to the deceased retired
25 member's surviving spouse or to the member's legal representative if the member is not
26 survived by a spouse, provided the deceased retired member had not, prior to the
27 member's death, instructed the Board of Trustees in writing that the member did not
28 want the lump-sum payment made to the member's surviving spouse, and that payment
29 should be paid to the member's legal representative as if the member were not survived
30 by a spouse."

31 **SECTION 2.** G.S. 135-64(h) reads as rewritten:

32 "(h) Upon the death of a retired member on or after January 1, 1999, there shall be
33 paid a death benefit to the surviving spouse of a deceased retired member or to the
34 deceased retired member's legal representative if not survived by a spouse; provided the
35 retired member has elected, when first eligible, to make, and has continuously made, in
36 advance of his death required contributions as determined by the Board of Trustees on a
37 fully contributory basis, through retirement allowance deductions or other methods
38 adopted by the Board of Trustees, to a group death benefit trust fund administered by
39 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
40 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
41 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
42 contributions required under this subsection. Should death occur before the completion
43 of 24 months of contributions required under this subsection, the deceased retired

1 member's surviving spouse or legal representative if not survived by a spouse shall be
2 paid the sum of the retired member's contributions required by this subsection plus
3 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
4 shall be made to the deceased retired member's surviving spouse, or to the member's
5 legal representative if the member is not survived by a spouse provided the deceased
6 retired member had not, prior to the member's death, instructed the Board of Trustees in
7 writing that the member did not want the lump-sum payment made to the member's
8 surviving spouse, and that payment should be paid to the member's legal representative
9 as if the member were not survived by a spouse."

10 **SECTION 3.** G.S. 128-27(l 3) reads as rewritten:

11 "(13) Death Benefit for Retired Members. – Upon receipt of proof, satisfactory to
12 the Board of Trustees in its capacity under this subsection, of the death of a retired
13 member of the Retirement System on or after January 1, 1999, there shall be paid a
14 death benefit to the surviving spouse of the deceased retired member or to the deceased
15 retired member's legal representative if not survived by a spouse; provided the retired
16 member has elected, when first eligible, to make, and has continuously made, in
17 advance of his death required contributions as determined by the Board of Trustees on a
18 fully contributory basis through retirement allowance deductions or other methods
19 adopted by the Board of Trustees, to a group death benefit trust fund administered by
20 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
21 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
22 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
23 contributions required under this subsection. Should death occur before the completion
24 of 24 months of contributions required under this subsection, the deceased retired
25 member's surviving spouse or legal representative if not survived by a spouse shall be
26 paid the sum of the retired member's contributions required by this subsection plus
27 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
28 shall be made to the deceased retired member's surviving spouse or to the member's
29 legal representative if the member is not survived by a spouse, provided the deceased
30 retired member had not, prior to the member's death, instructed the Board of Trustees in
31 writing that the member did not want the lump-sum payment made to the member's
32 surviving spouse, and that payment should be paid to the member's legal representative
33 as if the member were not survived by a spouse."

34 **SECTION 4.** G.S. 120-4.27 reads as rewritten:

35 **"§ 120-4.27. Death benefit.**

36 The designated beneficiary of a member who dies while in service after completing
37 one year of creditable service shall receive a lump-sum payment of an amount equal to
38 the deceased member's highest annual salary, to a maximum of fifteen thousand dollars
39 (\$15,000). For purposes of this death benefit "in service" means currently serving as a
40 member of the North Carolina General Assembly.

41 The death benefit provided by this section shall be designated a group life insurance
42 benefit payable under an employee welfare benefit plan that is separate and apart from
43 the Retirement System but under which the members of the Retirement System shall

1 participate and be eligible for group life insurance benefits. The Board of Trustees is
2 authorized to provide the death benefit in the form of group life insurance either by
3 purchasing a contract or contracts of group life insurance with any life insurance
4 company or companies licensed and authorized to transact business in the State of North
5 Carolina for the purpose of insuring the lives of qualified members in service, or by
6 establishing or affiliating with a separate trust fund qualified under Section 501(c)(9) of
7 the Internal Revenue Code of 1954, as amended.

8 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
9 member of the Retirement System or Retirement Fund on or after July 1, 1988, but
10 before January 1, 1999, there shall be paid a death benefit to the surviving spouse of a
11 deceased retired member, or to the deceased retired member's legal representative if not
12 survived by a spouse; provided the retired member has elected, when first eligible, to
13 make, and has continuously made, in advance of his death required contributions as
14 determined by the Retirement System on a fully contributory basis, through retirement
15 allowance deductions or other methods adopted by the Retirement System, to a group
16 death benefit trust fund administered by the Board of Trustees separate and apart from
17 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
18 death benefit shall be a lump-sum payment in the amount of five thousand dollars
19 (\$5,000) upon the completion of twenty-four months of contributions required under
20 this subsection. Should death occur before the completion of twenty-four months of
21 contributions required under this subsection, the deceased retired member's surviving
22 spouse or legal representative if not survived by a spouse shall be paid the sum of the
23 retired member's contributions required by this subsection plus interest to be determined
24 by the Board of Trustees.

25 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
26 member of the Retirement System or Retirement Fund on or after January 1, 1999, there
27 shall be paid a death benefit to the surviving spouse of a deceased retired member, or to
28 the deceased retired member's legal representative if not survived by a spouse; provided
29 the retired member has elected, when first eligible, to make, and has continuously made,
30 in advance of his death required contributions as determined by the Retirement System
31 on a fully contributory basis, through retirement allowance deductions or other methods
32 adopted by the Retirement System, to a group death benefit trust fund administered by
33 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
34 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
35 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
36 contributions required under this subsection. Should death occur before the completion
37 of 24 months of contributions required under this subsection, the deceased retired
38 member's surviving spouse or legal representative if not survived by a spouse shall be
39 paid the sum of the retired member's contributions required by this subsection plus
40 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
41 shall be made to the deceased retired member's surviving spouse or to the member's
42 legal representative if the member is not survived by a spouse, provided the deceased
43 retired member had not, prior to the member's death, instructed the Board of Trustees in

1 writing that the member did not want the lump-sum payment made to the member's
2 surviving spouse, and that payment should be paid to the member's legal representative
3 as if the member were not survived by a spouse."

4 **SECTION 7.** This act becomes effective July 1, 2001.
5

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

D

HOUSE BILL 333

PROPOSED COMMITTEE SUBSTITUTE H333-PCS2223-RO-5

Short Title: Death Benefits to Legal Representative.

(Public)

Sponsors:

Referred to:

March 1, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PROVISION FOR PAYMENT OF THE DEATH BENEFIT UNDER THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(1) reads as rewritten:

"(l) Death Benefit Plan. – There is hereby created a Group Life Insurance Plan (hereinafter called the "Plan") which is established as an employee welfare benefit plan that is separate and apart from the Retirement System and under which the members of the Retirement System shall participate and be eligible for group life insurance benefits. Upon receipt of proof, satisfactory to the Board of Trustees in their capacity as trustees under the Group Life Insurance Plan, of the death, in service, of a member who had completed at least one full calendar year of membership in the Retirement System, there shall be paid to such person as he shall have nominated by written designation duly acknowledged and filed with the Board of Trustees, if such person is living at the time of the member's death, otherwise to the member's legal representatives, a death benefit. Such death benefit shall be 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 his death occurs, or
- (2) The greatest compensation on which contributions were made by the member during a 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 his last day of actual service occurs;
- (3), (4) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1049, s. 2.

1 subject to a minimum of twenty-five thousand dollars (\$25,000) and to a maximum of
2 fifty thousand dollars (\$50,000). Such death benefit shall be payable apart and separate
3 from the payment of the member's accumulated contributions under the System on his
4 death pursuant to the provisions of subsection (f) of this section. For the purpose of the
5 Plan, a member shall be deemed to be in service at the date of his death if his death
6 occurs within 180 days from the last day of his actual service.

7 The death benefit provided in this subsection (l) shall not be payable,
8 notwithstanding the member's compliance with all the conditions set forth in the
9 preceding paragraph, if his death occurs

- 10 (1) After December 31, 1968 and after he has attained age 70; or
- 11 (2) After December 31, 1969 and after he has attained age 69; or
- 12 (3) After December 31, 1970 and after he has attained age 68; or
- 13 (4) After December 31, 1971 and after he has attained age 67; or
- 14 (5) After December 31, 1972 and after he has attained age 66; or
- 15 (6) After December 31, 1973 and after he has attained age 65; or
- 16 (7) After December 31, 1978, but before January 1, 1987, and after he has
17 attained age 70.

18 Notwithstanding the above provisions, the death benefit shall be payable on account
19 of the death of any member who died or dies on or after January 1, 1974, but before
20 January 1, 1979, after attaining age 65, if he or she had not yet attained age 65, if he or
21 she had not yet attained age 66, was at the time of death completing the work year for
22 those individuals under specific contract, or during the fiscal year for those individuals
23 not under specific contract, in which he or she attained 65, and otherwise met all
24 conditions for payment of the death benefit.

25 Notwithstanding the above provisions, the Board of Trustees may and is specifically
26 authorized to provide the death benefit according to the terms and conditions otherwise
27 appearing in this Plan in the form of group life insurance, either (i) by purchasing a
28 contract or contracts of group life insurance with any life insurance company or
29 companies licensed and authorized to transact business in this State for the purpose of
30 insuring the lives of members in service, or (ii) by establishing a separate trust fund
31 qualified under Section 501(c)(9) of the Internal Revenue Code of 1954, as amended,
32 for such purpose. To that end the Board of Trustees is authorized, empowered and
33 directed to investigate the desirability of utilizing group life insurance by either of the
34 foregoing methods for the purpose of providing the death benefit. If a separate trust
35 fund is established, it shall be operated in accordance with rules and regulations adopted
36 by the Board of Trustees and all investment earnings on the trust fund shall be credited
37 to such fund.

38 In administration of the death benefit the following shall apply:

- 39 (1) For the purpose of determining eligibility only, in this subsection
40 "calendar year" shall mean any period of 12 consecutive months or, if
41 less, the period covered by an annual contract of employment. For all
42 other purposes in this subsection "calendar year" shall mean the 12
43 months beginning January 1 and ending December 31.

- 1 (2) Last day of actual service shall be:
2 a. When employment has been terminated, the last day the
3 member actually worked.
4 b. When employment has not been terminated, the date on which
5 an absent member's sick and annual leave expire, unless he is
6 on approved leave of absence and is in service under the
7 provisions of G.S. 135-4(h).
8 (3) For a period when a member is on leave of absence, his status with
9 respect to the death benefit will be determined by the provisions of
10 G.S. 135-4(h).
11 (4) A member on leave of absence from his position as a teacher or State
12 employee for the purpose of serving as a member or officer of the
13 General Assembly shall be deemed to be in service during sessions of
14 the General Assembly and thereby covered by the provisions of the
15 death benefit. The amount of the death benefit for such member shall
16 be the equivalent of the salary to which the member would have been
17 entitled as a teacher or State employee during the 12-month period
18 immediately prior to the month in which death occurred, not to be less
19 than twenty-five thousand dollars (\$25,000) nor to exceed fifty
20 thousand dollars (\$50,000).

21 The provisions of the Retirement System pertaining to Administration, G.S. 135-6,
22 and management of funds, G.S. 135-7, are hereby made applicable to the Plan.

23 A member who is a beneficiary of the Disability Income Plan provided for in Article
24 6 of this Chapter shall be eligible for group life insurance benefits as provided in this
25 subsection, notwithstanding that the member is no longer an employee or teacher or that
26 the member's death occurs after the eligibility period after active service. The basis of
27 the death benefit payable hereunder shall be the higher of the death benefit computed as
28 above or a death benefit based on compensation used in computing the benefit payable
29 under G.S. 135-105 and G.S. 135-106, as may be adjusted for percentage post-disability
30 increases, all subject to the maximum dollar limitation as provided above. A member in
31 receipt of benefits from the Disability Income Plan under the provisions of G.S.
32 135-112 whose right to a benefit accrued under the former Disability Salary
33 Continuation Plan shall not be covered under the provisions of this paragraph.

34 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
35 subsection, of the death of a retired member of the Retirement System on or after July 1,
36 1988, but before January 1, 1999, there shall be paid a death benefit to the surviving
37 spouse of the deceased retired member or to the deceased retired member's legal
38 representative if not survived by a spouse; provided the retired member has elected,
39 when first eligible, to make, and has continuously made, in advance of his death
40 required contributions as determined by the Board of Trustees on a fully contributory
41 basis, through retirement allowance deductions or other methods adopted by the Board
42 of Trustees, to a group death benefit trust fund administered by the Board of Trustees
43 separate and apart from the Retirement System's Annuity Savings Fund and Pension

1 Accumulation Fund. This death benefit shall be a lump-sum payment in the amount of
2 five thousand dollars (\$5,000) upon the completion of twenty-four months of
3 contributions required under this subsection. Should death occur before the completion
4 of twenty-four months of contributions required under this subsection, the deceased
5 retired member's surviving spouse or legal representative if not survived by a spouse
6 shall be paid the sum of the retired member's contributions required by this subsection
7 plus interest to be determined by the Board of Trustees.

8 Upon receipt of proof, satisfactory to the Board of Trustees in its capacity under this
9 subsection, of the death of a retired member of the Retirement System on or after
10 January 1, 1999, there shall be paid a death benefit to the surviving spouse of the
11 deceased retired member or to the deceased retired member's legal representative if not
12 survived by a spouse; provided the retired member has elected, when first eligible, to
13 make, and has continuously made, in advance of his death required contributions as
14 determined by the Board of Trustees on a fully contributory basis, through retirement
15 allowance deductions or other methods adopted by the Board of Trustees, to a group
16 death benefit trust fund administered by the Board of Trustees separate and apart from
17 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
18 death benefit shall be a lump-sum payment in the amount of six thousand dollars
19 (\$6,000) upon the completion of 24 months of contributions required under this
20 subsection. Should death occur before the completion of 24 months of contributions
21 required under this subsection, the deceased retired member's surviving spouse or legal
22 representative if not survived by a spouse shall be paid the sum of the retired member's
23 contributions required by this subsection plus interest to be determined by the Board of
24 Trustees. Payment of this lump-sum amount shall be made to the deceased retired
25 member's surviving spouse or to the member's legal representative if the member is not
26 survived by a spouse, provided the deceased retired member had not, prior to the
27 member's death, instructed the Board of Trustees in writing that the member did not
28 want the lump-sum payment made to the member's surviving spouse, and that payment
29 should be paid to the member's legal representative as if the member were not survived
30 by a spouse."

31 **SECTION 2.** G.S. 135-64(h) reads as rewritten:

32 "(h) Upon the death of a retired member on or after January 1, 1999, there shall be
33 paid a death benefit to the surviving spouse of a deceased retired member or to the
34 deceased retired member's legal representative if not survived by a spouse; provided the
35 retired member has elected, when first eligible, to make, and has continuously made, in
36 advance of his death required contributions as determined by the Board of Trustees on a
37 fully contributory basis, through retirement allowance deductions or other methods
38 adopted by the Board of Trustees, to a group death benefit trust fund administered by
39 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
40 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
41 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
42 contributions required under this subsection. Should death occur before the completion
43 of 24 months of contributions required under this subsection, the deceased retired

1 member's surviving spouse or legal representative if not survived by a spouse shall be
2 paid the sum of the retired member's contributions required by this subsection plus
3 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
4 shall be made to the deceased retired member's surviving spouse, or to the member's
5 legal representative if the member is not survived by a spouse, provided the deceased
6 retired member had not, prior to the member's death, instructed the Board of Trustees in
7 writing that the member did not want the lump-sum payment made to the member's
8 surviving spouse, and that payment should be paid to the member's legal representative
9 as if the member were not survived by a spouse."

10 **SECTION 3.** G.S. 128-27(13) reads as rewritten:

11 "(13) Death Benefit for Retired Members. – Upon receipt of proof, satisfactory to
12 the Board of Trustees in its capacity under this subsection, of the death of a retired
13 member of the Retirement System on or after January 1, 1999, there shall be paid a
14 death benefit to the surviving spouse of the deceased retired member or to the deceased
15 retired member's legal representative if not survived by a spouse; provided the retired
16 member has elected, when first eligible, to make, and has continuously made, in
17 advance of his death required contributions as determined by the Board of Trustees on a
18 fully contributory basis through retirement allowance deductions or other methods
19 adopted by the Board of Trustees, to a group death benefit trust fund administered by
20 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
21 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
22 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
23 contributions required under this subsection. Should death occur before the completion
24 of 24 months of contributions required under this subsection, the deceased retired
25 member's surviving spouse or legal representative if not survived by a spouse shall be
26 paid the sum of the retired member's contributions required by this subsection plus
27 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
28 shall be made to the deceased retired member's surviving spouse or to the member's
29 legal representative if the member is not survived by a spouse, provided the deceased
30 retired member had not, prior to the member's death, instructed the Board of Trustees in
31 writing that the member did not want the lump-sum payment made to the member's
32 surviving spouse, and that payment should be paid to the member's legal representative
33 as if the member were not survived by a spouse."

34 **SECTION 4.** G.S. 120-4.27 reads as rewritten:

35 **"§ 120-4.27. Death benefit.**

36 The designated beneficiary of a member who dies while in service after completing
37 one year of creditable service shall receive a lump-sum payment of an amount equal to
38 the deceased member's highest annual salary, to a maximum of fifteen thousand dollars
39 (\$15,000). For purposes of this death benefit "in service" means currently serving as a
40 member of the North Carolina General Assembly.

41 The death benefit provided by this section shall be designated a group life insurance
42 benefit payable under an employee welfare benefit plan that is separate and apart from
43 the Retirement System but under which the members of the Retirement System shall

1 participate and be eligible for group life insurance benefits. The Board of Trustees is
2 authorized to provide the death benefit in the form of group life insurance either by
3 purchasing a contract or contracts of group life insurance with any life insurance
4 company or companies licensed and authorized to transact business in the State of North
5 Carolina for the purpose of insuring the lives of qualified members in service, or by
6 establishing or affiliating with a separate trust fund qualified under Section 501(c)(9) of
7 the Internal Revenue Code of 1954, as amended.

8 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
9 member of the Retirement System or Retirement Fund on or after July 1, 1988, but
10 before January 1, 1999, there shall be paid a death benefit to the surviving spouse of a
11 deceased retired member, or to the deceased retired member's legal representative if not
12 survived by a spouse; provided the retired member has elected, when first eligible, to
13 make, and has continuously made, in advance of his death required contributions as
14 determined by the Retirement System on a fully contributory basis, through retirement
15 allowance deductions or other methods adopted by the Retirement System, to a group
16 death benefit trust fund administered by the Board of Trustees separate and apart from
17 the Retirement System's Annuity Savings Fund and Pension Accumulation Fund. This
18 death benefit shall be a lump-sum payment in the amount of five thousand dollars
19 (\$5,000) upon the completion of twenty-four months of contributions required under
20 this subsection. Should death occur before the completion of twenty-four months of
21 contributions required under this subsection, the deceased retired member's surviving
22 spouse or legal representative if not survived by a spouse shall be paid the sum of the
23 retired member's contributions required by this subsection plus interest to be determined
24 by the Board of Trustees.

25 Upon receipt of proof, satisfactory to the Board of Trustees, of the death of a retired
26 member of the Retirement System or Retirement Fund on or after January 1, 1999, there
27 shall be paid a death benefit to the surviving spouse of a deceased retired member, or to
28 the deceased retired member's legal representative if not survived by a spouse; provided
29 the retired member has elected, when first eligible, to make, and has continuously made,
30 in advance of his death required contributions as determined by the Retirement System
31 on a fully contributory basis, through retirement allowance deductions or other methods
32 adopted by the Retirement System, to a group death benefit trust fund administered by
33 the Board of Trustees separate and apart from the Retirement System's Annuity Savings
34 Fund and Pension Accumulation Fund. This death benefit shall be a lump-sum payment
35 in the amount of six thousand dollars (\$6,000) upon the completion of 24 months of
36 contributions required under this subsection. Should death occur before the completion
37 of 24 months of contributions required under this subsection, the deceased retired
38 member's surviving spouse or legal representative if not survived by a spouse shall be
39 paid the sum of the retired member's contributions required by this subsection plus
40 interest to be determined by the Board of Trustees. Payment of this lump-sum amount
41 shall be made to the deceased retired member's surviving spouse or to the member's
42 legal representative if the member is not survived by a spouse, provided the deceased
43 retired member had not, prior to the member's death, instructed the Board of Trustees in

1 writing that the member did not want the lump-sum payment made to the member's
2 surviving spouse, and that payment should be paid to the member's legal representative
3 as if the member were not survived by a spouse."

4 **SECTION 5.** This act becomes effective July 1, 2001.

2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES

The following report from standing committee is presented:

By Representatives Barefoot and Cox (Chairs) for the Committee on PENSIONS AND RETIREMENT.

☐ Committee Substitute for

H.B. 333 A BILL TO BE ENTITLED AN ACT TO AMEND THE PROVISION FOR PAYMENT OF THE DEATH BENEFIT UNDER THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT SYSTEM.

- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.
- ☒ With a favorable report as to committee substitute bill, unfavorable as to original bill and recommendation that the committee substitute bill be re-referred to the Committee on APPROPRIATIONS
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 333

SHORT TITLE: Death Benefits to Legal Representative

SPONSOR(S): Representative Grady

SYSTEM OR PROGRAM AFFECTED: The Retirees' Contributory Death Benefit Plan

BILL SUMMARY: Amends the Death Benefit Plan for retirees of the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System and the Legislative Retirement System to allow the payment to the legal representative of the retiree instead of the spouse.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: No cost.

ASSUMPTIONS AND METHODOLOGY: The Retirees' Contributory Death Benefit Plan: The actuarial valuation of the Retirees' Contributory Death Benefit Plan as of December 31, 1999 shows that the Plan has liabilities of \$74,400,283. The Plan has assets of \$66,077,075. Prospective contributions of participants eligible for benefits (those with two or more years of coverage) have a value of \$47,967,811. The total present and prospective assets amount to \$114,044,886, which exceeds the liability of \$74,400,283 by \$39,644,603. On the basis of the calculation, the present contribution rates appear to be sufficient support the benefits of the Plan, and the necessary reserves are being accumulated.

SOURCES OF DATA: Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: March 15, 2001

MINUTES
HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT

April 18, 2001

The House Committee on Pensions and Retirement met on Wednesday, April 18, 2001, in Room 415 of the Legislative Office Building at 12 Noon. The following members were present: Chairman Dan Barefoot; Chairman Leslie Cox; Vice-Chairman Gene McCombs; Representatives Easterling, Oldham, Rogers, Starnes, Tolson, Gene Wilson, and Yongue. Representative Barbee called prior to the meeting and stated that he had another House Committee meeting at the same hour and may not be able to make this meeting. Stanley Moore, Fiscal Research, and Karen Cochrane-Brown, Research Division, were also in attendance. A Visitor Registration list is attached and made part of these minutes.

Chairman Cox called the meeting to order. He recognized Representative Russell to explain HB1107 – A BILL TO BE ENTITLED AN ACT TO REMOVE THE CAP ON SICK LEAVE CREDITABLE TO RETIREMENT FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM. A copy of the bill, fiscal note, and bill summary are attached and made part of these minutes.

Stanley Moore, Fiscal Research, was recognized by Chairman Cox, and stated this bill will encourage people never to go on vacation and to convert all annual leave to sick leave so as to retire earlier.

Ardis Watkins, speaking for SEANC, stated that it would be a very rare situation that an employee would be fortunate enough to work his/her entire career without taking any annual leave or sick leave. She pointed out that the Actuarial Note stated the cost would be very small.

Chairman Cox recognized Representative Barefoot who moved a favorable report with recommendation that the bill be re-referred to the Committee on Appropriations; motion carried.

Representative Tucker was recognized to explain Proposed Committee Substitute for HB 79 – A BILL TO BE ENTITLED AN ACT TO ESTABLISH THE LEGISLATIVE STUDY COMMISSION ON EARLY RETIREMENT FOR TEACHERS AND STATE EMPLOYEES. He stated the proposed committee substitute included only state employees and that his original bill also included local government employees. Representative Tucker said he endorses the proposed committee substitute. A copy of the original bill, the proposed committee substitute, actuarial note, and a bill summary are attached and made a part of these minutes.

Representative Barefoot moved adoption of the proposed committee substitute for HB79 for discussion.

Chairman Cox recognized Mr. Richard O'Brian, PFFPNC, who stated that he would hope local government employees would also be included in the proposed study commission bill.

Representative Oldham moved that proposed committee substitute for HB79 be amended on line 3 of page 1 after the word "Employees" by adding the words "and for Local Government Employees" which changes the title; and further amend on line 6 of page 1 after the word "Employees" by adding the words "and Local Government Employees"; and further amend on line 8 of page 1 after "(TSERS)." by adding the words "and for members of the Local Governmental Employees' Retirement System (LGERS)."; motion carried.

Representative Barefoot moved that the amendments be engrossed into a new proposed committee substitute for HB79, the proposed committee substitute be given a favorable report which changes the title, and original proposed committee substitute given an unfavorable report with recommendation that the new proposed committee substitute be re-referred to the Committee on Rules; motion carried.

Chairman Cox recognized Representative Dedmon to explain HB27 – A BILL TO BE ENTITLED AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND. A copy of the bill, proposed committee substitute, actuarial note, and bill summary are attached and made part of these minutes.

Representative Barefoot moved adoption of the proposed committee substitute for discussion.

Representatives Yongue and Rogers moved a favorable report for proposed committee substitute for HB27, unfavorable to original bill with recommendation that the proposed committee substitute be re-referred to the Committee on Appropriations; motion carried.

Representative Barefoot was recognized to explain HB1017 – A BILL TO BE ENTITLED AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND. A copy of the bill, proposed committee substitute bill, and actuarial note are attached and made a part of these minutes.

Representative Tolson moved adoption of the proposed committee substitute for HB 1017 for discussion.


After a short discussion, Representative Tolson moved a favorable report for proposed committee substitute for HB1017, unfavorable to original bill with Recommendation that the proposed committee substitute be re-referred to the Committee on Appropriations; motion carried.

Representative Barefoot was recognized to explain HB943 – A BILL TO BE ENTITLED AN ACT TO AUTHORIZE DISCONTINUED MEMBERSHIP SERVICE ALLOWANCES UNDER THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM. A copy of the bill, actuarial note, and bill summary are attached and made a part of these minutes.

Representative Gene Wilson moved a favorable report to HB943; motion carried.

There being no further business, Chairman Cox adjourned the meeting at 12:45PM.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Representative Daniel W. Barefoot
Chairman



Ferebee Stainback
Committee Assistant

VISITOR REGISTRATION SHEET

Pension & Retirement 4-18-01

VISITORS:.. PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Emily Fulghum	Smith Anderson
Richard L. O'Brien	PFFPNC
Tracy Brown	SEANC
Ardis Watkins	SEANC
BRANDON THOMAS	SEANC
Sherry Melton	SEANC
Pam Meyer	NCACC
John Hays	NCAST
A. C. Dawson	NC Ret Sch Personnel
Joseph H. Hammond	NC Retired Govt Emp Assoc
Frank Lewis	OSBPm
Debra Bruyn	Dept. of State Treasurer
Marshall Baerens	Dept of State Treasurer
Michael W. Williams	Dept of State Treasurer
John J. Williams	NASW-NC
Cathy Glover	Department of Administration
Carl Goodwin	OSP
John Metzger	NC PBA
John J. Jones	Electricians
B. G. Biondi	WSOPA
Paul Miller	NC State Firemen's Assoc.
Gordon A. Jorgensen	NC Assoc of Para NEMS

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

1

HOUSE BILL 1107

Short Title: Remove Cap on Sick Leave.

(Public)

Sponsors: Representatives Pope, Gibson, Russell (Primary Sponsors); Hensley, Blue, and Shubert.

Referred to: Pensions and Retirement.

April 11, 2001

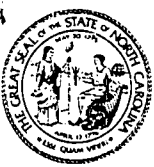
- 1 A BILL TO BE ENTITLED
2 AN ACT TO REMOVE THE CAP ON SICK LEAVE CREDITABLE TO
3 RETIREMENT FOR MEMBERS OF THE TEACHERS' AND STATE
4 EMPLOYEES' RETIREMENT SYSTEM.
5 The General Assembly of North Carolina enacts:
6 SECTION 1. G.S. 135-4(e) reads as rewritten:
7 "(e) Creditable service at retirement on which the retirement allowance of a
8 member shall be based shall consist of the membership service rendered by him since he
9 last became a member, and also if he has a prior service certificate which is in full force
10 and effect, the amount of service certified on his prior service certificate; and if he has
11 sick leave standing to his credit upon retirement on or after July 1, 1971, one month of
12 credit for each 20 days or portion thereof ~~thereof not to exceed 12 days of credit for each year~~
13 ~~of membership service or fraction thereof~~, but sick leave shall not be counted in
14 computing creditable service for the purpose of determining eligibility for disability
15 retirement or for a vested deferred allowance.
16 On and after July 1, 1971, a member whose account was closed on account of
17 absence from service under the provisions of G.S. 135-3(3) and who subsequently
18 returns to service for a period of five years, may thereafter repay in a lump sum the
19 amount withdrawn plus regular interest thereon from the date of withdrawal through the
20 year of repayment and thereby increase his creditable service by the amount of
21 creditable service lost when his account was closed.
22 On and after July 1, 1973, a member whose account in the North Carolina Local
23 Governmental Employees' Retirement System was closed on account of absence from
24 service under the provisions of G.S. 128-24(1a) and who subsequently became or
25 becomes a member of this System with credit for five years of service, may thereafter
26 repay in a lump sum the amount withdrawn from the North Carolina Local
27 Governmental Employees' Retirement System plus regular interest thereon from the

1 date of withdrawal through the year of repayment and thereby increase his creditable
2 service in this System by the amount of creditable service lost when his account was
3 closed.

4 On or after July 1, 1979, a member who has obtained 60 months of aggregate
5 service, or five years of membership service, as an employee of the North Carolina
6 General Assembly, except legislators, participants in the Legislative Intern Program and
7 pages, may make a lump sum payment together with interest, and an administrative fee
8 for such service, to the Teachers' and State Employees' Retirement System of an amount
9 equal to what he would have contributed had he been a member on his first day of
10 employment.

11 On and after January 1, 1985, the creditable service of a member who was a member
12 of the Law-Enforcement Officers' Retirement System at the time of the transfer of
13 law-enforcement officers employed by the State from that System to this Retirement
14 System and whose accumulated contributions are transferred from that System to this
15 Retirement System, shall include service that was creditable in the Law-Enforcement
16 Officers' Retirement System; and membership service with that System shall be
17 membership service with this Retirement System; provided, notwithstanding any
18 provision of this Article to the contrary, any inchoate or accrued rights of such a
19 member to purchase creditable service for military service, withdrawn service and prior
20 service under the rules and regulations of the Law-Enforcement Officers' Retirement
21 System shall not be diminished and may be purchased as creditable service with this
22 Retirement System under the same conditions which would have otherwise applied."

23 **SECTION 2.** This act becomes effective July 1, 2001, and applies to persons
24 retiring on or after that date.



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-2578

April 18, 2001

MEMORANDUM

TO: Representative Pope

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1107

Re: Removes the cap on the amount of sick leave that can be used for retirement in the Teachers' and State Employees' Retirement System.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 12, 2001
- (3) Actuarial Note, Hartman & Associates, April 16, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1107

SHORT TITLE: Remove Cap on Sick Leave

SPONSOR(S): Representative Pope

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund, Receipt Fund

BILL SUMMARY: Presently, a member is allowed one month of service for each 20 days of sick leave when they retire. The amount of sick leave that can be used for retirement credit has a cap of 12 days of sick leave for each year of membership service. Twelve days is the maximum number that an employee can earn each year. This bill removes the cap of 12 days per year of membership, so that members who convert annual leave to sick leave at end of year can use all sick leave for additional service credits in the retirement system.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: Buck Consultants and Hartman & Associates both agree that there is some cost of the proposal but estimates the cost to be very small.

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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson

DATE:

April 13, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 12, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1107

Dear Mr. Williamson:

We have received your letter of April 12 regarding House Bill 1107 which affects the Teachers' and State Employees' Retirement System.

This legislation appears to amend the provisions of G.S. 135-4(e) that provide service credit at the rate of one month for each 20 days or portion thereof by removing the cap/maximum of 12 days of credit for each year of membership service. This would allow unlimited creditable service for unused sick leave at retirement.

The cost to the State for this legislation would be negligible. However, since some employers have some discretion relative to the granting of sick leave, there could be a loss to the System due to the arbitrary inflation of sick leave credits at retirement.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

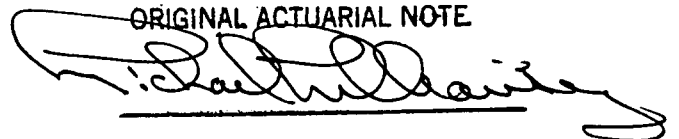


Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 16, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1107: An Act to Remove the Cap on Sick Leave
Creditable to Retirement for Members of the TSERS

Dear Mr. Moore:

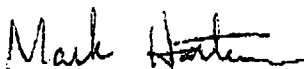
This bill amends G.S. 135-4(e) to eliminate the cap on the amount of sick leave used in computing retirement benefits in the Teachers' and State Employees' Retirement System (TSERS).

Under current law, a member receives one month of creditable service for each 20 days, or portion thereof, of unused sick leave upon retirement. Such credit is limited to 12 days for each year of membership service. This act would remove the maximum limitation. This act becomes effective July 1, 2001 and applies to persons retiring on or after that date.

The effect of this change would be to increase retirement benefits for some members. You have indicated that data is not available on the amount of accumulated sick leave per member or the amounts converted at retirement. Elimination of the cap is not expected to greatly increase the amount of converted sick leave, so the financial impact in the TSERS is not expected to be significant.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



HOUSE BILL 1107: Remove Cap on Sick Leave

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: April 17, 2001
Version: 1st Edition

Introduced by: Reps. Pope, Gibson, & Russell
Summary by: Theresa Matula
Committee Staff

SUMMARY: *House Bill 1107 removes the cap on sick leave creditable to retirement for members of the Teachers' and State Employees' Retirement System (TSERS).*

CURRENT SITUATION:

Under G.S. 135-4(e) upon retirement, members of the TSERS are allowed one month of credit toward creditable service for each 20 days, or portion thereof, of sick leave standing to their credit.

Leave Earnings:

- Employees may earn 12 days of sick leave per year.
- Based on their years of State service, employees may earn between 11¼ and 25¾ days of vacation leave each year.

Accumulation:

Vacation leave may be accumulated without any applicable maximum until December 31 of each year. On December 31 of each year any employee with more than 240 hours of accumulated leave shall have the excess accumulation converted to sick leave so that only 240 hours are carried forward to January 1 of the next calendar year. Although vacation leave in excess of 240 hours is transferred to sick leave, the amount of sick leave that can be used for retirement credit has a cap of 12 days of sick leave for each year of membership service.

BILL ANALYSIS:

Section 1 amends G.S. 135-4(e) to remove the cap (12 days of credit for each year of membership service) on sick leave.

Section 2 states that this act becomes effective July 1, 2001, and applies to persons retiring on or after that date.

H1107-SMSH-001

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 79

Short Title: 25-Year Retirement.

(Public)

Sponsors: Representatives Tucker; Alexander, Barefoot, Cansler, Coates, Cox, Sherrill, Warner, and Womble.

Referred to: Pensions and Retirement.

February 8, 2001

A BILL TO BE ENTITLED

AN ACT TO PROVIDE FOR TWENTY-FIVE-YEAR RETIREMENT FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000, but Before July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member shall receive the following service retirement allowance.

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent

(1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.

- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times

the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.

- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance:

- (1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

- b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 25 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
2. The service retirement allowance as computed under G.S. 135-5(b19)(1)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement.

- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 25 years of creditable service,

the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 25 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option 2 of subsection (g) above computed by assuming that the member had retired on the first day of the month following the date of his death, provided that the following conditions apply:

- 1 (1) a. The member had attained such age and/or creditable service to
2 be eligible to commence retirement with an early or service
3 retirement allowance, or
4 b. The member had obtained 20 years of creditable service in
5 which case the retirement allowance shall be computed in
6 accordance with ~~G.S. 135-5(b18)(1)b. or G.S. 135-5(b18)(2)c.,~~
7 G.S. 135-5(b19)(1)b. or G.S. 135-5(b19)(2)c., notwithstanding
8 the requirement of obtaining age 50.
9 (2) The member had designated as the principal beneficiary to receive a
10 return of his accumulated contributions one and only one person who
11 was living at the time of his death.
12 (3) The member had not instructed the Board of Trustees in writing that he
13 did not wish the provisions of this subsection to apply.

14 For the purpose of this benefit, a member is considered to be in service at the date of
15 his death if his death occurs within 180 days from the last day of his actual service. The
16 last day of actual service shall be determined as provided in subsection (1) of this
17 section. Upon the death of a member in service, the surviving spouse may make all
18 purchases for creditable service as provided for under this Chapter for which the
19 member had made application in writing prior to the date of death, provided that the
20 date of death occurred prior to or within 60 days after notification of the cost to make
21 the purchase. The term "in service" as used in this subsection includes a member in
22 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
23 Chapter."

24 **SECTION 4. G.S. 128-27(b18) reads as rewritten:**

25 "(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000-
26 2000, but Before July 1, 2001. - Upon retirement from service in accordance with
27 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
28 shall receive the following service retirement allowance:

- 29 (1) A member who is a law enforcement officer or an eligible former law
30 enforcement officer shall receive a service retirement allowance
31 computed as follows:
32 a. If the member's service retirement date occurs on or after his
33 55th birthday and completion of five years of creditable service
34 as a law enforcement officer, or after the completion of 30 years
35 of creditable service, the allowance shall be equal to one and
36 seventy-eight hundredths percent (1.78%) of his average final
37 compensation, multiplied by the number of years of his
38 creditable service.
39 b. If the member's service retirement date occurs on or after his
40 50th birthday and before his 55th birthday with 15 or more
41 years of creditable service as a law enforcement officer and
42 prior to the completion of 30 years of creditable service, his
43 retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;
 2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b18)(2)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 5. G.S. 128-27 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday and completion of five years of creditable service as a law enforcement officer, or after the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 25 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;

2. The service retirement allowance as computed under G.S. 128-27(b19)(1)a. reduced by five percent (5%) times the difference between 25 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- 1 a. If the member's service retirement date occurs on or after his
2 65th birthday upon the completion of five years of creditable
3 service or after the completion of 25 years of creditable service,
4 the allowance shall be equal to one and seventy-eight
5 hundredths percent (1.78%) of average final compensation,
6 multiplied by the number of years of creditable service.
- 7 b. If the member's service retirement date occurs after his 60th
8 birthday and before his 65th birthday and prior to his
9 completion of 25 years or more of creditable service, his
10 retirement allowance shall be computed as in G.S. 128-
11 27(b19)(2)a. but shall be reduced by one-quarter of one percent
12 (1/4 of 1%) thereof for each month by which his retirement date
13 precedes the first day of the month coincident with or next
14 following his 65th birthday.
- 15 c. If the member's early service retirement date occurs on or after
16 his 50th birthday and before his 60th birthday and after
17 completion of 20 years of creditable service but prior to the
18 completion of 25 years of creditable service, his early service
19 retirement allowance shall be equal to the greater of:
- 20 1. The service retirement allowance as computed under
21 G.S. 128-27(b19)(2)a. but reduced by the sum of five-
22 twelfths of one percent (5/12 of 1%) thereof for each
23 month by which his retirement date precedes the first day
24 of the month coincident with or next following the
25 month the member would have attained his 60th
26 birthday, plus one-quarter of one percent (1/4 of 1%)
27 thereof for each month by which his 60th birthday
28 precedes the first day of the month coincident with or
29 next following his 65th birthday; or
- 30 2. The service retirement allowance as computed under
31 G.S. 128-27(b19)(2)a. reduced by five percent (5%)
32 times the difference between 25 years and his creditable
33 service at retirement; or
- 34 3. If the member's creditable service commenced prior to
35 July 1, 1995, the service retirement allowance equal to
36 the actuarial equivalent of the allowance payable at the
37 age of 60 years as computed in G.S. 128-27(b19)(2)b.
- 38 d. Notwithstanding the foregoing provisions, any member whose
39 creditable service commenced prior to July 1, 1965, shall not
40 receive less than the benefit provided by G.S. 128-27(b)."

41 **SECTION 6. G.S. 135-5(m) reads as rewritten:**

42 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
43 principal beneficiary designated to receive a return of accumulated contributions shall
44 have the right to elect to receive in lieu thereof the reduced retirement allowance

1 provided by Option two of subsection (g) above computed by assuming that the member
2 had retired on the first day of the month following the date of his death, provided that all
3 three of the following conditions apply:

- 4 (1) a. The member had attained such age and/or creditable service to
5 be eligible to commence retirement with an early or service
6 retirement allowance, or
7 b. The member had obtained 20 years of creditable service in
8 which case the retirement allowance shall be computed in
9 accordance with ~~G.S. 128-27(b18)(1)b. or G.S. 128-~~
10 ~~27(b18)(2)c.,~~ G.S. 128-27(b19)(1)b. or G.S. 128-27(b19)(2)c.,
11 notwithstanding the requirement of obtaining age 50.
12 (2) The member had designated as the principal beneficiary to receive a
13 return of his accumulated contributions one and only one person who
14 is living at the time of his death.
15 (3) The member had not instructed the Board of Trustees in writing that he
16 did not wish the provisions of this subsection apply.

17 For the purpose of this benefit, a member is considered to be in service at the date of
18 his death if his death occurs within 180 days from the last day of his actual service. The
19 last day of actual service shall be determined as provided in subsection (1) of this
20 section. Upon the death of a member in service, the surviving spouse may make all
21 purchases for creditable service as provided for under this Chapter for which the
22 member had made application in writing prior to the date of death, provided that the
23 date of death occurred prior to or within 60 days after notification of the cost to make
24 the purchase."

25 **SECTION 7.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

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HOUSE BILL 79

PROPOSED COMMITTEE SUBSTITUTE H79-CSSH-19 [v.2]

4/17/2001 12:38:39 PM

Short Title: Study Commission on Early Retirement.

(Public)

Sponsors:

Referred to:

February 8, 2001

A BILL TO BE ENTITLED

AN ACT TO ESTABLISH THE LEGISLATIVE STUDY COMMISSION ON EARLY
RETIREMENT FOR TEACHERS AND STATE EMPLOYEES.

The General Assembly of North Carolina enacts:

SECTION 1.(a) There is established the Legislative Study Commission on Early Retirement for Teachers and State Employees. The Study Commission shall study the feasibility of providing for a twenty-five-year retirement for members of the Teachers' and State Employees' Retirement System (TSERS). In conducting the study, the Study Commission shall consider the benefit to employees, the cost to the State, and the number of positions likely to be affected.

SECTION 1.(b) The Study Commission shall consist of 10 members appointed as follows:

(1) Five members appointed by the President Pro Tempore of the Senate, all five shall be members of the Senate at the time of appointment, one individual shall have served within the last two years as a chair, cochair, or vice chair of the Senate Committee on Pensions and Retirement and Aging.

(2) Five members appointed by the Speaker of the House of Representatives, all five shall be members of the House of Representatives at the time of appointment, one individual shall have served within the last two years as a chair, cochair, or vice chair of the House of Representatives Committee on Pensions and Retirement.

SECTION 1.(c) The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate a cochair of the Study Commission from their appointees.

SECTION 1.(d) With the prior approval of the Legislative Services Commission, the Legislative Services Officer shall assign professional staff to assist in the work of the Legislative Study Commission on Early Retirement of Teachers and State Employees. With the prior approval of the Legislative Services Commission, the

1 Study Commission may hold its meetings in the State Legislative Building or the
2 Legislative Office Building.

3 **SECTION 1.(e)** The Study Commission shall submit a final written report of
4 its findings and recommendations on or before the convening of the 2002 Regular
5 Session of the 2001 General Assembly. All reports shall be filed with the President Pro
6 Tempore of the Senate, the Speaker of the House of Representatives, and the Legislative
7 Librarian. Upon filing its final report the Study Commission shall terminate.

8 **SECTION 1.(f)** Members of the Study Commission shall be paid per diem,
9 subsistence, and travel allowances at the rate established in G.S. 120-3.1.

10 **SECTION 1.(g)** All State departments and agencies shall cooperate with the
11 Study Commission and, upon request, shall furnish to the Study Commission and its
12 staff any information in their possession or available to them.

13 **SECTION 2.** From funds appropriated to the General Assembly for the
14 2001-2003 fiscal biennium, the Legislative Services Commission shall allocate funds
15 for the expenses of the Legislative Study Commission on Early Retirement of Teachers
16 and State Employees.

17 **SECTION 3.** This act is effective when it becomes law.
18

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Revised HB-79

SHORT TITLE: 25-Year Retirement

SPONSOR(S): Representative Tucker

SYSTEM OR PROGRAM AFFECTED: Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund, Receipts and Local Government Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 25 years of service regardless of age.

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 3.03% 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	\$217.3M	\$230.3M	\$243.9M	\$258.5M	\$273.9M
Highway Fund	\$ 11.1M	\$ 11.7M	\$ 12.5M	\$ 13.2M	\$ 14.0M
Receipt Funds	\$ 65.5M	\$ 69.0M	\$ 72.6M	\$ 76.5M	\$ 80.5M
TOTAL COST	\$293.9M	\$311.0M	\$329.0M	\$348.2M	\$368.4M

General Assembly Actuary: Hartman & Associates estimates the cost to be 2.95% 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	\$211.6M	\$224.2M	\$237.5M	\$251.7M	\$266.6M
Highway Fund	\$ 10.8M	\$ 11.4M	\$ 12.1M	\$ 12.8M	\$ 13.6M
Receipt Funds	\$ 63.8M	\$ 67.2M	\$ 70.7M	\$ 74.5M	\$ 78.4M
TOTAL COST	\$286.2M	\$302.8M	\$320.3M	\$339.0M	\$358.6M

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the cost will be 1.45% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2001-02	2002-03	2003-04	2004-05	2005-06
<u>Total Local Funds</u>	\$53.0M	\$56.4M	\$60.1M	\$63.9M	\$68.1M

General Assembly Actuary: Hartman & Associates estimates the cost will be 1.75% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2001-02	2002-03	2003-04	2004-05	2005-06
<u>Total Local Funds</u>	\$63.9M	\$68.1M	\$72.5M	\$77.2	\$82.1M

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.

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

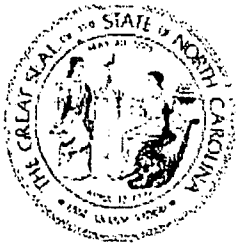
FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson



DATE: March 15, 2001



PCS FOR HOUSE BILL 79: Study Commission on Early Retirement

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: April 17, 2001
Version: PCS for 1st Edition
H79-CSSH-19 [v.2]

Introduced by:
Summary by: Theresa Matula
Committee Staff

SUMMARY: *The Proposed Committee Substitute for House Bill 79, H79-CSSH-19 [v.2], establishes a Legislative Study Commission on Early Retirement for Teachers and State Employees.*

BILL ANALYSIS:

Sections 1. (a) – (g) establish the Legislative Study Commission on Early Retirement for Teachers and State Employees to study the feasibility of providing for a twenty-five-year retirement for members of the Teachers' and State Employees' Retirement System (TSERS).

During the course of the study, the Commission shall consider the following:

- benefit to employees,
- cost to the State, and
- number of positions likely to be affected.

The Study Commission shall consist of 10 members, five appointed by the President Pro Tempore of the Senate and five appointed by the Speaker of the House of Representatives. All members shall be members of the Senate or House at the time of appointment and one individual from each group of five shall have served within the last two years as a chair, cochair, or vice chair of the Senate or House pensions and retirement committees. The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate a cochair of the Study Commission. Professional staff shall be assigned by the Legislative Services Commission to assist the Study Commission.

The Study Commission shall submit a final written report of its findings and recommendations on or before the convening of the 2002 Regular Session of the 2001 General Assembly. Upon filing its final report the Study Commission shall terminate.

Section 2 states that the Legislative Services Commission shall allocate funds for the expenses of the Study Commission.

Section 3 establishes that this act is effective when it becomes law.

H79-SMSH-001-PCS

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 27

Short Title: Increase Firemen and Rescue Squad Pensions.

(Public)

Sponsors: Representatives Dedmon; Alexander, Allred, Barefoot, Buchanan, Cole, Crawford, Davis, Gillespie, Insko, Justus, Luebke, Shubert, Smith, Wainwright, Warner, Warwick, and Womble.

Referred to: Pensions and Retirement.

February 1, 2001

A BILL TO BE ENTITLED

AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE
FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-86-55 reads as rewritten:

"§ 58-86-55. Monthly pensions upon retirement.

Any member who has served 20 years as an "eligible fireman" or "eligible rescue squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S. 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly pension from this fund. The monthly pension shall be in the amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred sixty-one dollars (\$161.00) per month. Any retired fireman receiving a pension shall, effective July 1, 2000, receive a pension of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred sixty-one dollars (\$161.00) per month.

Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a pension hereunder until the member's official duties as a fireman or rescue squad worker for which the member is paid compensation shall have been terminated and the member shall have retired as such according to standards or rules fixed by the board of trustees.

A member who is totally and permanently disabled while in the discharge of the member's official duties as a result of bodily injuries sustained or as a result of extreme exercise or extreme activity experienced in the course and scope of those official duties and who leaves the fire or rescue squad service because of this disability shall be entitled to be paid from the fund a monthly benefit in an amount of ~~one hundred fifty-~~

1 ~~one dollars (\$151.00)~~ one hundred sixty-one dollars (\$161.00) per month beginning the
2 first month after the member's fifty-fifth birthday. All applications for disability are
3 subject to the approval of the board who may appoint physicians to examine and
4 evaluate the disabled member prior to approval of the application, and annually
5 thereafter. Any disabled member shall not be required to make the monthly payment of
6 ten dollars (\$10.00) as required by G.S. 58-86-35 and G.S. 58-86-40.

7 A member who is totally and permanently disabled for any cause, other than line of
8 duty, who leaves the fire or rescue squad service because of this disability and who has
9 at least 10 years of service with the pension fund, may be permitted to continue making
10 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
11 contributions for a total of 240 months. The member shall upon attaining the age of 55
12 years be entitled to receive a pension as provided by this section. All applications for
13 disability are subject to the approval of the board who may appoint physicians to
14 examine and evaluate the disabled member prior to approval of the application and
15 annually thereafter.

16 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
17 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
18 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
19 of the General Statutes, and because of such annexation is unable to perform as a
20 fireman of any status, and if the member has at least 10 years of service with the
21 pension fund, may be permitted to continue making a monthly contribution of ten
22 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
23 months. The member upon attaining the age of 55 years and completion of such
24 contributions shall be entitled to receive a pension as provided by this section. Any
25 application to make monthly contributions under this section shall be subject to a
26 finding of eligibility by the Board of Trustees upon application of the member.

27 The pensions provided shall be in addition to all other pensions or benefits under any
28 other statutes of the State of North Carolina or the United States, notwithstanding any
29 exclusionary provisions of other pensions or retirement systems provided by law."

30 **SECTION 2.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 27
PROPOSED COMMITTEE SUBSTITUTE H27-PCS3395-RO-10

Short Title: Increase Firemen and Rescue Squad Pensions.

(Public)

Sponsors:

Referred to:

February 1, 2001

A BILL TO BE ENTITLED
AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE
FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-86-55 reads as rewritten:

"§ 58-86-55. Monthly pensions upon retirement.

Any member who has served 20 years as an "eligible fireman" or "eligible rescue squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S. 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly pension from this fund. The monthly pension shall be in the amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred sixty-one dollars (\$161.00) per month. Any retired fireman receiving a pension shall, effective ~~July 1, 2000~~, July 1, 2001, receive a pension of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred sixty-one dollars (\$161.00) per month.

Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a pension hereunder until the member's official duties as a fireman or rescue squad worker for which the member is paid compensation shall have been terminated and the member shall have retired as such according to standards or rules fixed by the board of trustees.

A member who is totally and permanently disabled while in the discharge of the member's official duties as a result of bodily injuries sustained or as a result of extreme exercise or extreme activity experienced in the course and scope of those official duties and who leaves the fire or rescue squad service because of this disability shall be entitled to be paid from the fund a monthly benefit in an amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred sixty-one dollars (\$161.00) per month beginning the first month after the member's fifty-fifth birthday. All applications for disability are subject to the approval of the board who may appoint physicians to examine and

1 evaluate the disabled member prior to approval of the application, and annually
2 thereafter. Any disabled member shall not be required to make the monthly payment of
3 ten dollars (\$10.00) as required by G.S. 58-86-35 and G.S. 58-86-40.

4 A member who is totally and permanently disabled for any cause, other than line of
5 duty, who leaves the fire or rescue squad service because of this disability and who has
6 at least 10 years of service with the pension fund, may be permitted to continue making
7 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
8 contributions for a total of 240 months. The member shall upon attaining the age of 55
9 years be entitled to receive a pension as provided by this section. All applications for
10 disability are subject to the approval of the board who may appoint physicians to
11 examine and evaluate the disabled member prior to approval of the application and
12 annually thereafter.

13 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
14 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
15 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
16 of the General Statutes, and because of such annexation is unable to perform as a
17 fireman of any status, and if the member has at least 10 years of service with the
18 pension fund, may be permitted to continue making a monthly contribution of ten
19 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
20 months. The member upon attaining the age of 55 years and completion of such
21 contributions shall be entitled to receive a pension as provided by this section. Any
22 application to make monthly contributions under this section shall be subject to a
23 finding of eligibility by the Board of Trustees upon application of the member.

24 The pensions provided shall be in addition to all other pensions or benefits under any
25 other statutes of the State of North Carolina or the United States, notwithstanding any
26 exclusionary provisions of other pensions or retirement systems provided by law."

27 **SECTION 2.** This act becomes effective July 1, 2001.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 27

SHORT TITLE: Firemen and Rescue Workers Pension Fund

SPONSOR(S): Representative Dedmon

SYSTEM OR PROGRAM AFFECTED: Firemen's and Rescue Squad Worker's Pension Fund

FUNDS AFFECTED: General Fund

BILL SUMMARY: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$151 to \$161

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE:

System Actuary

	<u>FY</u> 2001-02	<u>FY</u> 2002-03	<u>FY</u> 2003-04	<u>FY</u> 2004-05	<u>FY</u> 2005-06
Benefit Increase	\$2,828,478	\$2,828,478	\$2,828,478	\$2,828,478	\$2,828,478
Available Actuarial Gains	<u>\$2,077,883</u>	<u>\$2,077,883</u>	<u>\$2,077,883</u>	<u>\$2,077,883</u>	<u>\$2,077,883</u>
Appropriation Required	\$750,595	\$750,595	\$750,595	\$750,595	\$750,595

General Assembly Actuary

	<u>FY</u> 2001-02	<u>FY</u> 2002-03	<u>FY</u> 2003-04	<u>FY</u> 2004-05	<u>FY</u> 2005-06
Benefit Increase	\$2,941,130	\$2,941,130	\$2,941,130	\$2,941,130	\$2,941,130
Available Actuarial Gains	<u>\$2,077,883</u>	<u>\$2,077,883</u>	<u>\$2,077,883</u>	<u>\$2,077,883</u>	<u>\$2,077,883</u>
Appropriation Required	\$863,247	\$863,247	\$863,247	\$863,247	\$863,247

ASSUMPTIONS AND METHODOLOGY: 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, 2000 actuarial valuation of the fund. The data included 29,148 active members and 7,807 retired members in receipt of annual pensions totaling \$14.1 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:

System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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

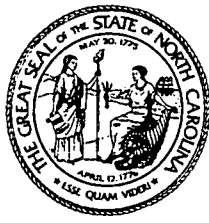
FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson

A handwritten signature in black ink, appearing to read "James D. Johnson", with a stylized, cursive script.

DATE: February 15, 2001



HOUSE BILL 27: Increase Firemen and Rescue Squad Pensions.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: April 18, 2001
Version: Proposed Committee Substitute
(H27-CSRO-10)

Introduced by: Rep. Dedmon
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

House Bill 27 increases the monthly pension for members of the Firemen's and Rescue Squad Workers' Pension Fund. The proposed committee substitute makes a technical change to clarify that the increase becomes effective July 1, 2001.

BILL ANALYSIS:

House Bill 27 increases the monthly benefit paid to retirees of the North Carolina Firemen's and Rescue Squad Workers' Pension Fund from \$151.00 to \$161.00.

In order to be eligible for the benefit, members must pay \$10.00 per month for a period of 20 years, be at least 55 years of age and have obtained at least 20 years of service. The benefit would be increased for those already retired and those who retire in the future. In addition, the bill makes an identical increase in the benefit paid to members who become totally and permanently disabled in the line of duty.

These benefits were previously increased, effective July 1, 2000.

This bill would become effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1017*

Short Title: Raise Fire and Rescue Pension Amount.

(Public)

Sponsors: Representatives Barefoot, Cox; Buchanan, Gillespie, Goodwin, Morris, Shubert, Smith, Wainwright, and Yongue.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE
FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-86-55 reads as rewritten:

"§ 58-86-55. Monthly pensions upon retirement.

Any member who has served 20 years as an "eligible fireman" or "eligible rescue squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S. 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly pension from this fund. The monthly pension shall be in the amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-eight dollars (\$158.00) per month. Any retired fireman receiving a pension shall, effective July 1, 2000, receive a pension of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-eight dollars (\$158.00) per month.

Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a pension hereunder until the member's official duties as a fireman or rescue squad worker for which the member is paid compensation shall have been terminated and the member shall have retired as such according to standards or rules fixed by the board of trustees.

A member who is totally and permanently disabled while in the discharge of the member's official duties as a result of bodily injuries sustained or as a result of extreme exercise or extreme activity experienced in the course and scope of those official duties and who leaves the fire or rescue squad service because of this disability shall be entitled to be paid from the fund a monthly benefit in an amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-eight dollars (\$158.00) per month beginning the

1 first month after the member's fifty-fifth birthday. All applications for disability are
2 subject to the approval of the board who may appoint physicians to examine and
3 evaluate the disabled member prior to approval of the application, and annually
4 thereafter. Any disabled member shall not be required to make the monthly payment of
5 ten dollars (\$10.00) as required by G.S. 58-86-35 and G.S. 58-86-40.

6 A member who is totally and permanently disabled for any cause, other than line of
7 duty, who leaves the fire or rescue squad service because of this disability and who has
8 at least 10 years of service with the pension fund, may be permitted to continue making
9 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
10 contributions for a total of 240 months. The member shall upon attaining the age of 55
11 years be entitled to receive a pension as provided by this section. All applications for
12 disability are subject to the approval of the board who may appoint physicians to
13 examine and evaluate the disabled member prior to approval of the application and
14 annually thereafter.

15 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
16 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
17 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
18 of the General Statutes, and because of such annexation is unable to perform as a
19 fireman of any status, and if the member has at least 10 years of service with the
20 pension fund, may be permitted to continue making a monthly contribution of ten
21 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
22 months. The member upon attaining the age of 55 years and completion of such
23 contributions shall be entitled to receive a pension as provided by this section. Any
24 application to make monthly contributions under this section shall be subject to a
25 finding of eligibility by the Board of Trustees upon application of the member.

26 The pensions provided shall be in addition to all other pensions or benefits under any
27 other statutes of the State of North Carolina or the United States, notwithstanding any
28 exclusionary provisions of other pensions or retirement systems provided by law. "

29 **SECTION 2.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1017*
PROPOSED COMMITTEE SUBSTITUTE H1017*-PCS5202-LL-16

Short Title: Raise Fire and Rescue Pension Amount.

(Public)

Sponsors:

Referred to:

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE
FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-86-55 reads as rewritten:

"§ 58-86-55. Monthly pensions upon retirement.

Any member who has served 20 years as an "eligible fireman" or "eligible rescue squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S. 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly pension from this fund. The monthly pension shall be in the amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-eight dollars (\$158.00) per month. Any retired fireman receiving a pension shall, effective ~~July 1, 2000,~~ July 1, 2001, receive a pension of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-eight dollars (\$158.00) per month.

Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a pension hereunder until the member's official duties as a fireman or rescue squad worker for which the member is paid compensation shall have been terminated and the member shall have retired as such according to standards or rules fixed by the board of trustees.

A member who is totally and permanently disabled while in the discharge of the member's official duties as a result of bodily injuries sustained or as a result of extreme exercise or extreme activity experienced in the course and scope of those official duties and who leaves the fire or rescue squad service because of this disability shall be entitled to be paid from the fund a monthly benefit in an amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-eight dollars (\$158.00) per month beginning the first month after the member's fifty-fifth birthday. All applications for disability are subject to the approval of the board who may appoint physicians to examine and

1 evaluate the disabled member prior to approval of the application, and annually
2 thereafter. Any disabled member shall not be required to make the monthly payment of
3 ten dollars (\$10.00) as required by G.S. 58-86-35 and G.S. 58-86-40.

4 A member who is totally and permanently disabled for any cause, other than line of
5 duty, who leaves the fire or rescue squad service because of this disability and who has
6 at least 10 years of service with the pension fund, may be permitted to continue making
7 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
8 contributions for a total of 240 months. The member shall upon attaining the age of 55
9 years be entitled to receive a pension as provided by this section. All applications for
10 disability are subject to the approval of the board who may appoint physicians to
11 examine and evaluate the disabled member prior to approval of the application and
12 annually thereafter.

13 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
14 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
15 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
16 of the General Statutes, and because of such annexation is unable to perform as a
17 fireman of any status, and if the member has at least 10 years of service with the
18 pension fund, may be permitted to continue making a monthly contribution of ten
19 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
20 months. The member upon attaining the age of 55 years and completion of such
21 contributions shall be entitled to receive a pension as provided by this section. Any
22 application to make monthly contributions under this section shall be subject to a
23 finding of eligibility by the Board of Trustees upon application of the member.

24 The pensions provided shall be in addition to all other pensions or benefits under any
25 other statutes of the State of North Carolina or the United States, notwithstanding any
26 exclusionary provisions of other pensions or retirement systems provided by law."

27 **SECTION 2.** This act becomes effective July 1, 2001.



STATE OF NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

RICHARD H. MOORE
TREASURER

MICHAEL WILLIAMSON
DEPUTY TREASURER

April 11, 2001

The Honorable Daniel W. Barefoot
Chairman of the House Committee
on Pensions and Retirement
Suite 416 of the Legislative Office Building
Raleigh, North Carolina

Re: Actuarial Note/House Bill 1017

Dear Representative Barefoot:

In accordance with North Carolina General Statute 120-114, we herewith submit a certified copy of an actuarial note on House Bill 1017 which you introduced affecting the Firemen's and Rescue Squad Workers' Pension Fund.

Please let me know if you have any questions about this actuarial note and if you wish us to appear before any committee of the General Assembly with regard to this bill.

Sincerely yours,

Michael Williamson
Director

/dsp

Enclosure

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 10, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1017

Dear Mr. Williamson:

We have received your letter of April 6 regarding House Bill 1017 which affects the Firemen's and Rescue Squad Workers' Pension Fund

This legislation appears to increase the monthly pension payment from \$151.00 to \$158.00 for members who retire on and after July 1, 2001; however, for members who are already retired, this increase appears to be effective July 1, 2000.

Our cost estimate for this legislation is based on the Fund's valuation as of June 30, 2000, including a funding basis of nine years for liquidation of unfunded accrued liabilities. The funding mechanism for this legislation would be to utilize the Pension Fund's unencumbered actuarial gains as of June 30, 2000.

Under the assumption that the current annual contribution amount of \$12,104,780 is continued in the 2001-02 fiscal year, there is \$2,077,883 available from actuarial gains as of June 30, 2000, to offset the required contributions for benefit improvements. The annual cost of this proposed legislation is \$1,979,934. Therefore, this legislation would require no additional appropriations for the 2001-02 fiscal year. The following table shows the required annual contribution for this legislation and the offsetting use of gains.

Mr. Michael L. Williamson
April 10, 2001
Page 2

**ADDITIONAL ANNUAL CONTRIBUTIONS PAYABLE BY THE STATE
FOR AN INCREASE IN PENSION FROM \$151 TO \$158
FOR CURRENT AND FUTURE RETIRED MEMBERS**

Additional contribution for \$7.00 increase:	
Normal	\$ 263,206
Accrued liability	<u>1,716,728</u>
Total	\$ 1,979,934
Available annual contribution due to actuarial gains	
From 6-30-2000 valuation	\$ 2,077,883
Additional appropriation required	\$ (97,949)

As a technical observation, there are no funding provisions included in this Bill. Also as a technical observation, Section 1 appears to inadvertently show an effective date of July 1, 2000 for retired members in lieu of July 1, 2001.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

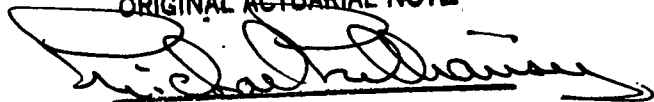
Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:m
P:\C\FR2001\DOCS\CORR\H81017.DOC
JC 1950-003 mod1 013

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE.



GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 943

Short Title: Discontinued Membership Service.

(Public)

Sponsors: Representative Barefoot.

Referred to: Pensions and Retirement.

April 2, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO AUTHORIZE DISCONTINUED MEMBERSHIP SERVICE
3 ALLOWANCES UNDER THE LOCAL GOVERNMENTAL EMPLOYEES'
4 RETIREMENT SYSTEM.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. G.S. 128-26 is amended by adding a new subsection to read:

7 "(t) Discontinued Membership Service. – A member whose employment with a
8 participating employer is involuntarily terminated as a result of a termination event as
9 defined in this subsection may be allowed a discontinued service allowance, provided
10 that the discontinued service allowance is approved by the terminated member's
11 participating employer, and provided that reemployment with another participating
12 employer is not available to the member at the time of the termination event. For
13 purposes of this section, "termination event" means termination of employment as a
14 result of (i) the participating employer's cessation of operations; (ii) the participating
15 employer's dissolution; (iii) the merger of a participating employer with and into an
16 unrelated entity, other than another participating employer; (iv) the acquisition of the
17 participating employer by an unrelated entity, other than another participating employer;
18 or (v) the determination by the participating employer that a reduction in force will
19 accomplish economies in the participating employer's budget resulting from either the
20 elimination of a job and its responsibilities or from lack of funds to support the job.

21 Upon the occurrence of a termination event, and subject to the provisions of this
22 section, an unreduced membership service allowance, not otherwise allowed under this
23 Chapter, may be approved for terminated members with 20 or more years of creditable
24 membership service who are at least 55 years of age. Alternatively, upon the occurrence
25 of a termination event, a discontinued service allowance, not otherwise allowed under
26 this Chapter, may be approved for terminated members with 20 or more years of
27 creditable membership service who are at least 50 years of age, reduced by one-fourth
28 of one percent (1/4 of 1%) for each month that retirement precedes the member's fifty-

1 fifth birthday. In cases in which a discontinued membership service allowance is
2 approved, the terminated member's employer shall be responsible for making a lump-
3 sum payment to the Retirement System's Board of Trustees equal to the actuarial
4 present value of the additional liabilities imposed upon the Retirement System, to be
5 determined by the Retirement System's consulting actuary, as a result of the
6 discontinued membership service allowance, plus an administrative fee to be
7 determined by the Board of Trustees."

8 **SECTION 2.** This act is effective when it becomes law.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 943

SHORT TITLE: Discontinued Membership Service

SPONSOR(S): Representative Barefoot

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: Local Funds

BILL SUMMARY: Allows a member whose employment is involuntarily terminated to receive an unreduced retirement benefit if the member is age 55 with 20 or more years of service and a reduced retirement benefit if the member is age 50 with 20 or more years of service. The reduced is 3% per year for each year the member is short of age 55. The terminated member's employer will pay the additional liabilities imposed upon the retirement system.

EFFECTIVE DATE: When it becomes law

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Buck Consultants and Hartman & Associates agree that there would be no cost to the Local Governmental Employees' Retirement System since the participating local employer would be paying the full liability.

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, 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

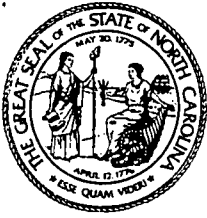
FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore

APPROVED BY: James D. Johnson



DATE: April 13, 2001



HOUSE BILL 943: Discontinued Membership Service.

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: April 18, 2001
Version: First Edition

Introduced by: Rep. Barefoot
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 943 amends the law governing the Local Governmental Employees' Retirement System to authorize discontinued membership service allowances.*

BILL ANALYSIS:

This bill adds a new provision to the law governing the Local Governmental Employees' Retirement System to authorize members of the System who are involuntarily terminated from employment to receive a discontinued membership service allowance. The termination must be the result of a "termination event" and must be approved by the terminated member's employer.

"Termination event" means:

- The employer ceases operation.
- The employer is dissolved.
- The employer is merged into a nonparticipating employer.
- The employer is acquired by a nonparticipating employer.
- The employee is terminated as the result of a reduction in force.

The member will be eligible to receive an unreduced retirement benefit if the member is age 55 and has at least 20 years of credited service. Alternatively, the member would be eligible to receive a reduced retirement benefit if the member is age 50 and has at least 20 years of credited service. The benefit is reduced by $\frac{1}{4}$ of 1% for each month that retirement precedes the member's 55th birthday.

The terminated member's employer must pay the actuarial present value of the additional liabilities imposed on the Retirement System plus an administrative fee, both amounts to be determined by the Retirement System's actuary.

This act would become effective when it becomes law.

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

AGENDA

May 9, 2001
Room 415 LOB
10:00 A.M.

OPENING REMARKS

**Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

**SB 158 REPEAL MONROE FIREMEN'S SUPP. RETIRE. FUND
Senator Plyler, Sponsor**

**SB 544 CORRECT HENDERSON FIREMEN'S SUPP. RETIRE.
Senator Wellons, Sponsor**

**HB 825 CORRECTIONAL OFFICERS/28-YEAR RETIREMENT
Representative Cox, Sponsor**

**HB 999 RETIREMENT COLA INCREASES
Representative Barefoot and Cox, Sponsors**

Postponed
**HB 1331 RETIRED SCHOOL EMPLOYEES RETURN TO SCHOOLS
Representative Oldham, Barefoot, Cox, and Easterling, Sponsors**

ADJOURNMENT

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT MAY 9, 2001

The House Committee on Pensions and Retirement met on Wednesday, May 9, 2001 at 10:00 a.m. in Room 415 of the Legislative Office Building. Members present were Representatives Barefoot and Cox, Cochairs; and Representatives McCombs, Barbee, Rogers, Shubert, Starnes, Tolson, Wilson, C., Wilson, G., and Yongue. The Visitor Registration Sheet is attached.

Representative Barefoot called the meeting to order and introduced the pages serving the committee; Amy Dents of Richmond County, sponsored by Representative Goodwin, and Ryan Boyce of Wake County, sponsored by Representative Miner.

Committee substitute for Senate Bill 158, **Repeal Monroe Firemen's Supplemental Retirement Fund**, sponsored by Senator Plyler, was the first bill before the committee. Due to a prior commitment, Senator Plyler was unable to attend. Stanley Moore, staff counsel, was recognized to explain the committee substitute. He told the Committee that Senate Bill 158 (CS) repeals the Monroe firemen's supplemental retirement fund that was created years ago. Any money in the fund would be transferred to the local relief fund of Monroe County.

Representative Starnes moved for a favorable report, motion carried.

House Bill 825, **Correctional Officers/28-Year Retirement**, was before the Committee for consideration. Representative Cox, bill sponsor, was recognized to explain the bill. He distributed a cartoon (attachment # 8) and explained that the bill provides for unreduced retirement for correctional officers and probation/parole officers of the Department of Correction after twenty-eight years of service in the teacher's and state employee's retirement system.

Representative Shubert expressed concern that the committee needed more information before referring the bill to the committee on Appropriations. She said she could not vote without more information. Representative C. Wilson moved for a favorable report and re-referral to the House committee on Appropriations, motion carried.

House Bill 999, **Retirement Cost of Living Increases**, was explained by Representative Cox, bill sponsor. The bill provides a post-retirement increase of 1.6% in the benefits of individuals in the Teacher's and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System, and Local Governmental Employees' Retirement System.

Representative Yongue presented a proposed committee substitute and moved for its adoption, motion carried. The committee substitute corrected the date on page 1, line 9 by changing the year from 2001 to 2000. Stanley Moore, staff counsel, explained that the 1.6% that the bill provides is 80% of the 2% increase proposed in the Governor's budget. He said that 1.6% is what was intended, and historically retirees get 80% of the

2% because they do not have to pay retirement, social security, or state income tax. He explained the similarities between House Bill 999 and House Bill 1255, and noted that House Bill 1255 includes a smaller percentage of increase.

Michael Williamson from the State Treasurer's Office reinforced the point that the Board of Trustees recommended a 3.5% increase. He represented the Treasurer as saying that increase should be no lower than 2%.

Representative Rogers expressed concerns about reducing the percentage to only 1.6% for fear it would be decreased even more in the future and asked for an actuarial note (attachment # 7). Representative Yongue asked for a fiscal report or information regarding the affect the bill would have on the retirement system. Representative Shubert explained that she was frustrated about not getting information and getting out-of-date information about the fiscal reports regarding the retirement system.

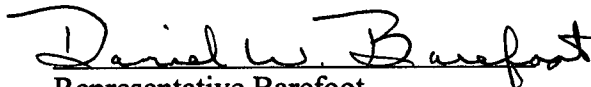
Representative McCombs moved for a favorable report to the committee substitute, unfavorable to original bill and recommend that the bill be re-referred to the committee on Appropriations. Former Representative Adams, now lobbyist for the NC Retired Government Employees Association, expressed to the committee his hope that no action would be taken on the bill because the 1.6% was not enough. Representative Shubert made a substitute motion that action be deferred on the bill until the next meeting of the committee, motion carried.


Senate Bill 544, **Correct Henderson Firemen's Supplemental Retirement**, was before the Committee for consideration. Senator Wellons, bill sponsor, explained that the bill corrects inconsistency in the current law regarding an 80% limitation on the funds used to pay supplemental benefits for firemen in Henderson by setting a specific minimum supplemental benefit.

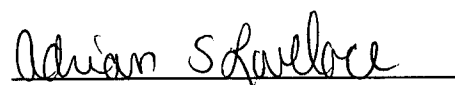
Representative Rogers moved for a favorable report, motion carried.

Representative Oldham made a motion to remove House Bill 1331, **Retired School Employees Return to Schools**, from the agenda and be considered at a later meeting.

The meeting was adjourned.


Representative Barefoot
Presiding Committee Chair


Jackie Pittman
Committee Assistant


Adrian Lovelace
Transcribing Committee Assistant

Attachments:

Committee Meeting Agenda

Visitor Registration Sheet

Senate Bill 158 and Fiscal Note and summary

Senate Bill 158 Committee Report

Senate Bill 544, Bill Summary, and Fiscal Note

Senate Bill 544 Committee Report

House Bill 825, Bill Summary, and Actuarial Note

Cartoon distributed by Representative Cox regarding House Bill 825

House Bill 825 Committee Report

House Bill 999, Bill Summary, and Actuarial Note

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

AGENDA

May 9, 2001
Room 415 LOB
10:00 A.M.

OPENING REMARKS

**Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

- | | |
|----------------|--|
| SB 158 | REPEAL MONROE FIREMEN'S SUPP. RETIRE. FUND
Senator Plyler, Sponsor |
| SB 544 | CORRECT HENDERSON FIREMEN'S SUPP. RETIRE.
Senator Wellons, Sponsor |
| HB 825 | CORRECTIONAL OFFICERS/28-YEAR RETIREMENT
Representative Cox, Sponsor |
| HB 999 | RETIREMENT COLA INCREASES
Representative Barefoot and Cox, Sponsors |
| HB 1331 | RETIRED SCHOOL EMPLOYEES RETURN TO SCHOOLS
Representative Oldham, Barefoot, Cox, and Easterling, Sponsors |

ADJOURNMENT

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

May 9, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Ron McKinney	NCAE - Winston-Salem
Marshall Barnes	Department of State Treasurer
Dwight Spencer	Tanbeck Political Consultant
Michael Williamson	Dept. of State Treasurer
Ed Adams	NC. Retired Govt Employee Assn
Frank Duggs	NCASA
Charles Cromer	NCATL
Eddie Caspell	Education: Everybody's Business Coalition
Patricia Renner	NCACE
Frank Lewis	OSBP M
ELLIS HANKINS	NCLM
Alia Barlane	Electricities
Camille Skinton	DAH

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

May 9, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Susan Valauri	Nationwide
Donna Rosefield	DCR
Betsy Byrd	DCR
Jeffrey Brown	DCR
Laura Benjamin	Pace College
Settle Dockery	York Properties Raleigh
Linell Harris Edmisten	LHPC
Myrick Howard	Preservation NC
Renae Vance	DCR
DAVID ISLEY	ROCKINGHAM CNTY COMMISSIONER
Ferry Owens	" " "

May 9, 2001

Date**FIRM OR AGENCY AND ADDRESS**

Virginia C. Smith → POLICE House Board of Directors
Lindsay S Newsom

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 158
Pensions & Retirement and Aging Committee Substitute Adopted 4/12/01

Short Title: Repeal Monroe Firemen's Supp. Retire. Fund.

(Local)

Sponsors:

Referred to:

February 19, 2001

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE MONROE FIREMEN'S SUPPLEMENTAL
RETIREMENT FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 31 of the 1975 Session Laws, as amended by Chapter
532 of the 1981 Session Laws, is repealed.

SECTION 2. All funds remaining in the Monroe Firemen's Supplemental
Retirement Fund are transferred to the Board of Trustees of the Local Firemen's Relief
Fund of the City of Monroe to be held and administered as provided in Article 84 of
Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.



North Carolina General Assembly
Legislative Services Office

George R. Hall, Legislative Services Officer
(919) 733-7044

C. Goldman, Director
Administrative Division
Room 9, Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
(919) 733-7500

Gerry F. Cohen, Director
Bill Drafting Division
Suite 401, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6660

James D. Johnson, Director
Fiscal Research Division
Suite 619, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-4910

Dennis W. McCarty, Director
Information Systems Division
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

March 5, 2001

MEMORANDUM

TO: Senator Aaron Plyler
Senator Bill Purcell

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on Senate Bill 158

Re: Repeal of the Monroe Firemen's Supplemental Pension Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Chairman, Senate Committee on Pensions & Retirement
Senate Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, Senate Bill 158, February 28, 2001



North Carolina General Assembly
Legislative Services Office

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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

February 28, 2001

Senator Aaron Plyler
Senator Bill Purcell
North Carolina Senate
Raleigh, North Carolina 27601

Re: Actuarial/Fiscal Note (Senate Bill 158)
Monroe Firemen's Supplemental Retirement Fund

Dear Senators Plyler and Purcell:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: Repeal of the Monroe Firemen's Supplemental Retirement Fund.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: The Monroe Firemen's Supplemental Retirement Fund is presently financed by the transfer of all funds in excess of \$10,000 from the City of Monroe Firemen's Local Relief Fund. This Retirement Fund presently provides supplemental retirement benefits to those retired firemen with 30 or more years of service and those retired firemen who are age 55 with 25 or more years of service. The total years of service of all retired firemen are totaled and divided into the total funds available to determine the value of a share and then each person get a share value times the years of service with a maximum annual benefit of \$600.

With this repeal, all funds will be transferred from the Monroe Firemen's Supplemental Retirement Fund back to the City of Monroe Firemen's Local Relief Fund to be used as allowed by G. S. 58-84-35.

Actuarial Endorsement:

Charles W. Dunn

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore

Stanley Moore
Fiscal Analyst
Fiscal Research Division

ACTUARIAL NOTE

True & Exact Copy of Original

Certified By: *Stanley Moore* Date: 3-5-01
Legislative Fiscal Research

file

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is presented:

By Representative(s) **Barefoot & Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☒ Committee Substitute for

S.B. 158 A BILL TO BE ENTITLED AN ACT TO REPEAL THE MONROE FIREMEN'S SUPPLEMENTAL RETIREMENT FUND.

☒ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title, unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation that the committee substitute bill #) be re-referred to the Committee on .)

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 158
Pensions & Retirement and Aging Committee Substitute Adopted 4/12/01

Short Title: ^{the} Repeal Monroe Firemen's Supp. Retire. Fund. (Local)

Sponsors:

Referred to:

February 19, 2001

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE MONROE FIREMEN'S SUPPLEMENTAL
RETIREMENT FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 31 of the 1975 Session Laws, as amended by Chapter
532 of the 1981 Session Laws, is repealed.

SECTION 2. All funds remaining in the Monroe Firemen's Supplemental
Retirement Fund are transferred to the Board of Trustees of the Local Firemen's Relief
Fund of the City of Monroe to be held and administered as provided in Article 84 of
Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

3

SENATE BILL 544
Second Edition Engrossed 4/11/01
Third Edition Engrossed 4/12/01

Short Title:	Correct Henderson Firemen's Supp. Retire.	(Local)
Sponsors:	Senator Wellons.	
Referred to:	Pensions & Retirement and Aging.	

March 20, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO CORRECT AN INCONSISTENCY IN THE HENDERSON FIREMEN'S
3 SUPPLEMENTAL RETIREMENT ACT.

4 The General Assembly of North Carolina enacts:

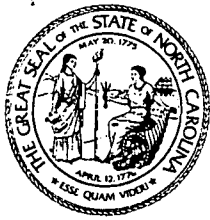
5 SECTION 1. Section 4 of Chapter 810 of the 1959 Session Laws, as
6 amended by Chapter 374 of the 1969 Session Laws, Chapter 133 of the 1977 Session
7 Laws, Chapter 111 of the 1981 Session Laws, Chapter 173 of the 1987 Session Laws,
8 Chapter 897 of the 1991 Session Laws, and Chapter 636 of the 1993 Session Laws,
9 reads as rewritten:

10 "Section 4. Eligibility for supplemental benefits. For the purpose of this section
11 "supplemental benefit" as used in this section shall be defined to mean any sum of
12 money payable by the Fund to a fireman of the Henderson City Fire Department who is
13 a full-time paid member of the Henderson Fire Department at the time of ratification of
14 this act or any person who shall become such a full-time paid member, provided that no
15 person shall be eligible for benefits unless and until such person is also eligible for
16 retirement or disability benefits as a member of the North Carolina Local Governmental
17 Employees' Retirement System. Any disability retirement shall be on a medical board's
18 recommendation. The board of trustees shall designate a medical board composed of
19 three physicians. If required, other physicians may be employed in special cases. The
20 medical board shall arrange for and make physical examinations and pass upon all
21 medical examinations, all essential statements and certificates by or on behalf of a
22 member in connection with an application for disability retirement and shall report in
23 writing to the board of trustees its conclusion and recommendations upon all matters
24 referred to it. Upon the application of a member for disability retirement, he may be
25 retired by the board of trustees not less than thirty days nor more than ninety days next
26 following the date of filing application, provided, that the medical board, after a medical
27 examination of such member, shall certify that such member is mentally or physically

1 incapacitated for further performance of duty, that such incapacity is likely to be
2 permanent and that such member should be retired. Once each year during the first five
3 years following retirement of a member on a disability retirement allowance and once in
4 every three-year period thereafter, the board of trustees may, and upon his application
5 shall, require any disabled member who has not yet attained the age of fifty-five (55)
6 years to undergo a medical examination, such examination to be made at the place of
7 residence of said member or other place mutually agreed upon, by a physician or
8 physicians designated by the board of trustees. Should any disabled member who has
9 not yet attained the age of fifty-five (55) years refuse to submit to at least one medical
10 examination in any such year by a physician or physicians designated by the board of
11 trustees, his allowance may be discontinued until his withdrawal of such refusal and
12 should his refusal continue for one year, all his rights in and to his pension may be
13 revoked by the board of trustees. Should the medical board report and certify to the
14 board of trustees that such disabled member is engaged in or is able to engage in a
15 gainful occupation paying more than the difference between his retirement allowance
16 and his monthly compensation at time of disability, and should the board of trustees
17 concur in such report, then the amount of his pension shall be reduced to an amount
18 which together with his pension and the amount earnable by him, shall equal the amount
19 of his monthly compensation. Should his earning capacity be later changed, the amount
20 of his pension may be further modified. Should he be restored to full employment in
21 Henderson Fire Department or by any other employer at a salary equal to his
22 compensation at the time of disability, his retirement shall cease. Should it be
23 determined he is physically able to return to full employment in the Henderson Fire
24 Department and he is offered full employment in the Henderson Fire Department before
25 he has attained fifty-five (55) years of age and he refuses employment, he forfeits all
26 rights to retirement pension. It is further provided that this Act does not modify or alter
27 in any way the ~~workmen's~~ Workmen's Compensation Laws of the State of North
28 Carolina. All firemen of the Henderson City Fire Department, who retire under the
29 above conditions, including disability retirement, as provided herein, shall receive for
30 the remainder of his life a minimum supplemental benefit of twenty-five dollars
31 (\$25.00) per month, ~~except that the total amount paid all retired members of the~~
32 ~~Henderson City Fire Department shall not exceed eighty percent (80%) of the income~~
33 ~~received by the Fund during the preceding fiscal year from interest on investment of~~
34 ~~capital funds, plus the amount derived from other sources.~~ month. In the event that
35 ~~eighty percent (80%) of the income above mentioned is~~ the funds available (as limited
36 by this Act) are insufficient to pay such minimum of twenty-five dollars (\$25.00) per
37 month to each person receiving supplemental benefit, the amount shall be equally
38 prorated among the retired members of the Henderson City Fire Department. Each
39 retired fireman receiving a supplemental benefit in accordance with this act shall receive
40 the same amount of supplemental benefit per month. Commencing July 1, 1992, the
41 maximum payment to any retired member of the Henderson City Fire Department from
42 the Fund is three hundred dollars (\$300.00) per month. In the event a fireman dies while
43 receiving a supplemental benefit, but within 10 years of the date of that fireman's first
44 receiving the supplemental benefit, the board of Trustees shall continue paying the

1 supplemental benefit for the deceased fireman to his surviving spouse, or, if there is no
2 surviving spouse, then to the persons entitled to receive his residuary estate, until the
3 total months during which a supplemental benefit is paid to the fireman, his surviving
4 spouse, and his estate equals 120 months. All funds received by the Fund (including
5 interest received) from other sources during each fiscal year and funds from prior years
6 may be used for payments of supplemental benefits to retired members of the
7 Henderson City Fire Department as authorized by the Trustees and as set forth under
8 this statute, provided, however, that a minimum of two hundred fifty thousand dollars
9 (\$250,000) of investments shall be continuously maintained by the Fund. All Fund
10 balances in excess of this amount may be used for benefit payments and other
11 authorized expenses. Any Fund balances, which are not paid out, may be invested as
12 provided in this act. The board of trustees shall have the authority and power to
13 promulgate rules and regulations to the end that the supplemental benefits herein
14 provided may be properly administered and carried out and for the purpose of achieving
15 the objectives herein sought."

16 **SECTION 2.** This act is effective when it becomes law.



SENATE BILL 544: Correct Henderson Firemen's Supp. Retire.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 9, 2001
Version: Third Edition

Introduced by: Sen. Wellons
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

Senate Bill 544 corrects an inconsistency in the Henderson Firemen's Supplemental Retirement Act by removing a limitation on the total amount of funds, which can be used for the payment of benefits to eligible firemen.

CURRENT LAW:

The Henderson Firemen's Supplemental Retirement Act authorizes the payment of supplemental benefits to all firemen who retire from the Local Governmental Employees' Retirement System, either for service or for disability. The Act provides a \$25.00 minimum benefit to all eligible members.

Prior to 1993, the Act contained language, which limited the funds that could be used to pay supplemental benefits to 80% of the interest and amounts from other sources. In 1993, this language was changed to provide that all money received by the Fund may be used for payments of benefits, provided that \$250,000 of investments must always remain in the Fund. However, the provision relating to the payment of the benefit was not amended in 1993, and contains an inconsistency.

BILL ANALYSIS:

This bill corrects the inconsistency by deleting the reference to the outdated 80% limitation from the provision relating to the payment of the benefit.

This act would become effective when it becomes law.



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-2578

April 5, 2001

MEMORANDUM

TO: Senator Allen Wellons

FROM: Stanley Moore 
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on Senate Bill 544

Re: Correction of the Henderson Firemen's Supplemental Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Chairman, Senate Committee on Pensions & Retirement
Senate Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, Senate Bill 544, March 27, 2001



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March 27, 2001

The Honorable Allen Wellons
North Carolina Senate
Legislative Building, Room 1026
Raleigh, North Carolina 27601-2808

Re: Actuarial/Fiscal Note (Senate Bill 544)
Henderson Firemen's Supplemental Pension Fund

Dear Senator Wellons:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: The Henderson Firemen's Supplemental Retirement System provides a maximum benefit of \$300 per month to retired firemen, for a minimum period of 120 months. The proposed change removes the cap on the payment of benefits from the System of 80% of the income received by the System.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows:
There should be no financial effect on the System as a result of this change.

Actuarial Endorsement:

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore
Fiscal Analyst
Fiscal Research Division

5-9-01 mtg.
file

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee is presented:

By Representative(s) **Barefoot & Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

-
- ☐ Committee Substitute for
S.B. 544 A BILL TO BE ENTITLED AN ACT TO CORRECT AN INCONSISTENCY IN
THE HENDERSON FIREMEN'S SUPPLEMENTAL RETIREMENT ACT.
- ☒ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ .
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ .
- ☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title,
unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation
that the committee substitute bill #) be re-referred to the Committee on .)
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 825

Short Title: Correctional Officers/28-Year Retirement.

(Public)

Sponsors: Representative Cox.

Referred to: Pensions and Retirement.

March 27, 2001

A BILL TO BE ENTITLED
AN ACT TO ALLOW CORRECTIONAL OFFICERS AND PROBATION/PAROLE
OFFICERS OF THE DEPARTMENT OF CORRECTION TO RETIRE WITH
UNREDUCED BENEFITS AFTER COMPLETING TWENTY-EIGHT YEARS OF
SERVICE.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-1 is amended by adding a new subdivision to read:

"(7b) "Correctional officer" means a full-time paid employee of the
Department of Correction who has been certified as a criminal justice
officer as provided under Chapter 17C of the General Statutes."

SECTION 2. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000,
2000, but Before July 1, 2001. – Upon retirement from service in accordance with
subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
shall receive the following service retirement ~~allowance~~ allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday, and completion of five years of creditable service
as a law enforcement officer, or after the completion of 30 years
of creditable service, the allowance shall be equal to one and
eighty-one hundredths percent (1.81%) of his average final
compensation, multiplied by the number of years of his
creditable service.

b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and

1 prior to the completion of 30 years of creditable service, his
2 retirement allowance shall be equal to the greater of:

- 3 1. The service retirement allowance payable under G.S.
4 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$
5 of 1%) thereof for each month by which his retirement
6 date precedes the first day of the month coincident with
7 or next following the month the member would have
8 attained his 55th birthday; or
- 9 2. The service retirement allowance as computed under
10 G.S. 135-5(b18)(1)a. reduced by five percent (5%) times
11 the difference between 30 years and his creditable
12 service at retirement.

13 (2) A member who is not a law enforcement officer or an eligible former
14 law enforcement officer shall receive a service retirement allowance
15 computed as follows:

- 16 a. If the member's service retirement date occurs on or after his
17 65th birthday upon the completion of five years of membership
18 service or after the completion of 30 years of creditable service
19 or on or after his 60th birthday upon the completion of 25 years
20 of creditable service, the allowance shall be equal to one and
21 eighty-one hundredths percent (1.81%) of his average final
22 compensation, multiplied by the number of years of creditable
23 service.
- 24 b. If the member's service retirement date occurs after his 60th
25 birthday and before his 65th birthday and prior to his
26 completion of 25 years or more of creditable service, his
27 retirement allowance shall be computed as in G.S.
28 135-5(b18)(2)a. but shall be reduced by one-quarter of one
29 percent ($\frac{1}{4}$ of 1%) thereof for each month by which his
30 retirement date precedes the first day of the month coincident
31 with or next following his 65th birthday.
- 32 c. If the member's early service retirement date occurs on or after
33 his 50th birthday and before his 60th birthday and after
34 completion of 20 years of creditable service but prior to the
35 completion of 30 years of creditable service, his early service
36 retirement allowance shall be equal to the greater of:
 - 37 1. The service retirement allowance as computed under
38 G.S. 135-5(b18)(2)a. but reduced by the sum of
39 five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for
40 each month by which his retirement date precedes the
41 first day of the month coincident with or next following
42 the month the member would have attained his 60th
43 birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%)
44 thereof for each month by which his 60th birthday

- 1 precedes the first day of the month coincident with or
- 2 next following his 65th birthday; or
- 3 2. The service retirement allowance as computed under
- 4 G.S. 135-5(b18)(2)a. reduced by five percent (5%) times
- 5 the difference between 30 years and his creditable
- 6 service at retirement; or
- 7 3. If the member's creditable service commenced prior to
- 8 July 1, 1994, the service retirement allowance equal to
- 9 the actuarial equivalent of the allowance payable at the
- 10 age of 60 years as computed in G.S. 135-5(b18)b.
- 11 d. Notwithstanding the foregoing provisions, any member whose
- 12 creditable service commenced prior to July 1, 1963, shall not
- 13 receive less than the benefit provided by G.S. 135-5(b)."

14 **SECTION 3.** G.S. 135-5 is amended by adding a new subsection to read:

15 "(b19) Service Retirement Allowance of Members Retiring on or After
16 July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1)
17 above, on or after July 1, 2001, a member shall receive the following service retirement
18 allowance:

19 (1) A member who is a law enforcement officer or an eligible former law
20 enforcement officer shall receive a service retirement allowance
21 computed as follows:

22 a. If the member's service retirement date occurs on or after his
23 55th birthday, and completion of five years of creditable service
24 as a law enforcement officer, or after the completion of 30 years
25 of creditable service, the allowance shall be equal to one and
26 eighty-one hundredths percent (1.81%) of his average final
27 compensation, multiplied by the number of years of his
28 creditable service.

29 b. If the member's service retirement date occurs on or after his
30 50th birthday and before his 55th birthday with 15 or more
31 years of creditable service as a law enforcement officer and
32 prior to the completion of 30 years of creditable service, his
33 retirement allowance shall be equal to the greater of:

34 1. The service retirement allowance payable under G.S.
35 135-5(b19)(1)a. reduced by one-third of one percent (1/3
36 of 1%) thereof for each month by which his retirement
37 date precedes the first day of the month coincident with
38 or next following the month the member would have
39 attained his 55th birthday; or

40 2. The service retirement allowance as computed under
41 G.S. 135-5(b19)(1)a. reduced by five percent (5%) times
42 the difference between 30 years and his creditable
43 service at retirement.

(2) A member who is a correctional officer or an eligible former correctional officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 28 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 28 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 28 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 28 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.

(3) A member who is not a law enforcement officer, an eligible former law enforcement officer, a correctional officer, or an eligible former

1 correctional officer shall receive a service retirement allowance
2 computed as follows:

3 a. If the member's service retirement date occurs on or after his
4 65th birthday upon the completion of five years of membership
5 service or after the completion of 30 years of creditable service
6 or on or after his 60th birthday upon the completion of 25 years
7 of creditable service, the allowance shall be equal to one and
8 eighty-one hundredths percent (1.81%) of his average final
9 compensation, multiplied by the number of years of creditable
10 service.

11 b. If the member's service retirement date occurs after his 60th
12 birthday and before his 65th birthday and prior to his
13 completion of 25 years or more of creditable service, his
14 retirement allowance shall be computed as in G.S. 135-
15 5(b19)(2)a. but shall be reduced by one-quarter of one percent
16 (1/4 of 1%) thereof for each month by which his retirement date
17 precedes the first day of the month coincident with or next
18 following his 65th birthday.

19 c. If the member's early service retirement date occurs on or after
20 his 50th birthday and before his 60th birthday and after
21 completion of 20 years of creditable service but prior to the
22 completion of 30 years of creditable service, his early service
23 retirement allowance shall be equal to the greater of:

24 1. The service retirement allowance as computed under
25 G.S. 135-5(b19)(2)a. but reduced by the sum of five-
26 twelfths of one percent (5/12 of 1%) thereof for each
27 month by which his retirement date precedes the first day
28 of the month coincident with or next following the
29 month the member would have attained his 60th
30 birthday, plus one-quarter of one percent (1/4 of 1%)
31 thereof for each month by which his 60th birthday
32 precedes the first day of the month coincident with or
33 next following his 65th birthday; or

34 2. The service retirement allowance as computed under
35 G.S. 135-5(b19)(2)a. reduced by five percent (5%) times
36 the difference between 30 years and his creditable
37 service at retirement; or

38 3. If the member's creditable service commenced prior to
39 July 1, 1994, the service retirement allowance equal to
40 the actuarial equivalent of the allowance payable at the
41 age of 60 years as computed in G.S. 135-5(b19)b.

42 d. Notwithstanding the foregoing provisions, any member whose
43 creditable service commenced prior to July 1, 1963, shall not
44 receive less than the benefit provided by G.S. 135-5(b)."

SECTION 4. G.S. 135-5(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option 2 of subsection (g) above computed by assuming that the member had retired on the first day of the month following the date of his death, provided that the following conditions apply:

- (1) a. The member had attained such age and/or creditable service to be eligible to commence retirement with an early or service retirement allowance, or
- b. The member had obtained 20 years of creditable service in which case the retirement allowance shall be computed in accordance with ~~G.S. 135-5(b18)(1)b.~~ G.S. 135-5(b18)(1)b. or ~~G.S. 135-5(b18)(2)c.,~~ G.S. 135-5(b18)(2)c., notwithstanding the requirement of obtaining age 50.
- (2) The member had designated as the principal beneficiary to receive a return of his accumulated contributions one and only one person who was living at the time of his death.
- (3) The member had not instructed the Board of Trustees in writing that he did not wish the provisions of this subsection to apply.

For the purpose of this benefit, a member is considered to be in service at the date of his death if his death occurs within 180 days from the last day of his actual service. The last day of actual service shall be determined as provided in subsection (l) of this section. Upon the death of a member in service, the surviving spouse may make all purchases for creditable service as provided for under this Chapter for which the member had made application in writing prior to the date of death, provided that the date of death occurred prior to or within 60 days after notification of the cost to make the purchase. The term "in service" as used in this subsection includes a member in receipt of a benefit under the Disability Income Plan as provided in Article 6 of this Chapter."

SECTION 5. This act becomes effective July 1, 2001.



HOUSE BILL 825: Correctional Officers/28-Year Retirement

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: May 9, 2001
Version: 1st Edition

Introduced by: Representative Cox
Summary by: Theresa Matula
Committee Staff

SUMMARY: *House Bill 825 would allow correctional officers and probation/parole officers of the Department of Correction to be eligible for an unreduced retirement with twenty-eight years of membership in the Teachers' and State Employees' Retirement System (TSERS).*

BILL ANALYSIS:

Section 1 amends G.S. 135-1 by adding a subdivision defining a correctional officer as a full-time paid employee of the Department of Correction who has been certified as a criminal justice officer under Chapter 17C.

Section 2 amends G.S. 135-5(b18) to specify that the benefits outlined under (b18) apply to the Service Retirement Allowance of Members Retiring *on or After July 1, 2000, but Before July 1, 2001*.

Section 3 adds G.S. 135-5(b19) outlining the Service Retirement Allowance of Members Retiring *on or After July 1, 2001*. These amendments allow members who are correctional officers, or an eligible former correctional officers, to receive the retirement benefit if the retirement date occurs on or after his 65th birthday upon completion of 5 years of membership service, after the completion of 28 years of creditable service (currently 30); or after his 60th birthday upon the completion of 25 years. The correctional officer or eligible former correctional office may receive a reduced benefit if the member's retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 28 or more years of creditable service, or if the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 28 years (currently 30) of creditable service.

Section 4 amends the citations in the *Survivor's Alternate Benefit* section to reflect the amendments to G.S. 135-5(b19)(1)b. and G.S. 135-5(b19)(2)c.

Section 5 states that this act becomes effective July 1, 2001.

H825-SMSH-001



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April 20, 2001

MEMORANDUM

TO: Representative Cox

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 825

Re: Reduces the years of service required for an unreduced benefit from 30 years to 28 years for Correctional Officers who are members of the Teachers' and State Employees' Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representative Barefoot; Co-chairman, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 18, 2001
- (3) Actuarial Note, Hartman & Associates, April 18, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 825 (First Edition)

SHORT TITLE: Correctional Officers/28-Year Retirement

SPONSOR(S): Representative Cox

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

FUNDS AFFECTED: General Fund, Highway Fund, and Receipts Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 28 years of service as a certified correctional officer regardless of age.

EFFECTIVE DATE: July 1, 2001

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

Retirement System Actuary: Buck Consultants estimates the normal cost will increase by .04% 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	\$2.9m	\$3.0m	\$3.2m	\$3.4m	\$3.6m
Highway Fund	\$0.1m	\$0.2m	\$0.2m	\$0.2m	\$0.2m
Receipt Funds	<u>\$0.9m</u>	<u>\$0.9m</u>	<u>\$1.0m</u>	<u>\$1.0m</u>	<u>\$1.1m</u>
Total Retirement Cost	\$3.9m	\$4.1m	\$4.4m	\$4.6m	\$4.9m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase by .047% 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	\$3.3m	\$3.5m	\$3.8m	\$4.0m	\$4.2m
Highway Fund	\$0.2m	\$0.2m	\$0.2m	\$0.2m	\$0.2m
Receipt Funds	<u>\$1.0m</u>	<u>\$1.1m</u>	<u>\$1.1m</u>	<u>\$1.2m</u>	<u>\$1.3m</u>
Total Retirement Cost	\$4.5m	\$4.8m	\$5.1m	\$5.4m	\$5.7m

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.

SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: April 20, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 17, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 825

Dear Mr. Williamson:

We have received your letter of April 11 regarding House Bill 825 which affects the Teachers' and State Employees' Retirement System.

This legislation appears to define "correctional officer" as a full-time paid employee of the Department of Correction who has been certified as a criminal justice officer as provided under Chapter 17C of the General Statutes. This legislation also appears to provide unreduced service retirement allowances to correctional officers regardless of age after 28 years of creditable service.

The cost of this proposal is estimated to be 0.04% of payroll based on the data we received for corrections officers from the fiscal research office.

It appears that there are numerous technical problems with statutory references contained in this bill. Also, as a technical observation, there are no funding provisions included in the bill. Lastly, this legislation creates inequities by setting out yet another class of members.

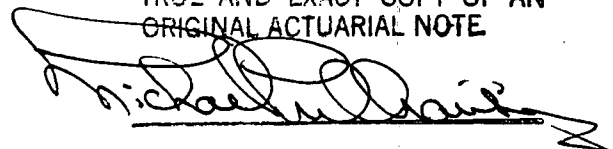
If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,


Edward A. Macdonald
Principal and Consulting Actuary

EAM:jg
PANCTE\2001\Docs\Cor\HB 825.Doc
00387-0004 RET03/180

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



Buck Consultants, Inc.

770 1955-2488 Fax 770 1933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 18, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 825: An Act to Allow Correctional Officers to Retire
with Unreduced Benefits After Completing 28 Years of Service

Dear Mr. Moore:

This bill amends G.S. 135-5 to modify the retirement provisions in the Teachers' and State Employees' Retirement System applicable to Correctional Officers. Currently, a Correctional Officer may receive an unreduced retirement allowance upon attainment of age 65 and completion of 5 years of service, attainment of age 60 and completion of 25 years of service, or at any age upon completion of 30 years of service. This act reduces the 30 years of service requirement and provides that any Correctional Officer may retire with an unreduced allowance at any age with 28 years of service.

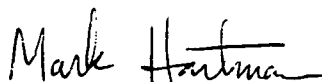
This act becomes effective July 1, 2001 and applies to members retiring on or after that date.

Changing the service requirement for an unreduced retirement allowance to 28 years would increase both the employer's normal contribution rate and the accrued liability contribution. The estimated total cost, expressed as a percentage of payroll, is an increase of 0.047% of pay. This provides amortization of the additional unfunded accrued liability over a 9 year period.

These estimates are based on the actuarial valuation as of December 31, 1999 and data provided by you regarding 14,312 Correctional Officers.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

KUDZU



file

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee is presented:

By Representative(s) **Barefoot & Cox** (Chairs) for the Committee on **PENSIONS & RETIREMENT**.

☐ Committee Substitute for

H.B. 825 A BILL TO BE ENTITLED AN ACT TO ALLOW CORRECTIONAL OFFICERS AND PROBATION/PAROLE OFFICERS OF THE DEPARTMENT OF CORRECTION TO RETIRE WITH UNREDUCED BENEFITS AFTER COMPLETING TWENTY-EIGHT YEARS OF SERVICE.

☐ With a favorable report.

☒ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☒.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title, unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation that the committee substitute bill #) be re-referred to the Committee on .)

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 825

Short Title: Correctional Officers/28-Year Retirement.

(Public)

Sponsors: Representative Cox.

Referred to: Pensions and Retirement.

March 27, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO ALLOW CORRECTIONAL OFFICERS AND PROBATION/PAROLE
3 OFFICERS OF THE DEPARTMENT OF CORRECTION TO RETIRE WITH
4 UNREDUCED BENEFITS AFTER COMPLETING TWENTY-EIGHT YEARS OF
5 SERVICE.

6 The General Assembly of North Carolina enacts:

7 SECTION 1. G.S. 135-1 is amended by adding a new subdivision to read:

8 "(7b) "Correctional officer" means a full-time paid employee of the
9 Department of Correction who has been certified as a criminal justice
10 officer as provided under Chapter 17C of the General Statutes."

11 SECTION 2. G.S. 135-5(b18) reads as rewritten:

12 "(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000.
13 2000, but Before July 1, 2001. – Upon retirement from service in accordance with
14 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
15 shall receive the following service retirement ~~allowance~~ allowance:

16 (1) A member who is a law enforcement officer or an eligible former law
17 enforcement officer shall receive a service retirement allowance
18 computed as follows:

19 a. If the member's service retirement date occurs on or after his
20 55th birthday, and completion of five years of creditable service
21 as a law enforcement officer, or after the completion of 30 years
22 of creditable service, the allowance shall be equal to one and
23 eighty-one hundredths percent (1.81%) of his average final
24 compensation, multiplied by the number of years of his
25 creditable service.

26 b. If the member's service retirement date occurs on or after his
27 50th birthday and before his 55th birthday with 15 or more
28 years of creditable service as a law enforcement officer and

1 prior to the completion of 30 years of creditable service, his
2 retirement allowance shall be equal to the greater of:

- 3 1. The service retirement allowance payable under G.S.
4 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$
5 of 1%) thereof for each month by which his retirement
6 date precedes the first day of the month coincident with
7 or next following the month the member would have
8 attained his 55th birthday; or
- 9 2. The service retirement allowance as computed under
10 G.S. 135-5(b18)(1)a. reduced by five percent (5%) times
11 the difference between 30 years and his creditable
12 service at retirement.

13 (2) A member who is not a law enforcement officer or an eligible former
14 law enforcement officer shall receive a service retirement allowance
15 computed as follows:

- 16 a. If the member's service retirement date occurs on or after his
17 65th birthday upon the completion of five years of membership
18 service or after the completion of 30 years of creditable service
19 or on or after his 60th birthday upon the completion of 25 years
20 of creditable service, the allowance shall be equal to one and
21 eighty-one hundredths percent (1.81%) of his average final
22 compensation, multiplied by the number of years of creditable
23 service.
- 24 b. If the member's service retirement date occurs after his 60th
25 birthday and before his 65th birthday and prior to his
26 completion of 25 years or more of creditable service, his
27 retirement allowance shall be computed as in G.S.
28 135-5(b18)(2)a. but shall be reduced by one-quarter of one
29 percent ($\frac{1}{4}$ of 1%) thereof for each month by which his
30 retirement date precedes the first day of the month coincident
31 with or next following his 65th birthday.
- 32 c. If the member's early service retirement date occurs on or after
33 his 50th birthday and before his 60th birthday and after
34 completion of 20 years of creditable service but prior to the
35 completion of 30 years of creditable service, his early service
36 retirement allowance shall be equal to the greater of:
 - 37 1. The service retirement allowance as computed under
38 G.S. 135-5(b18)(2)a. but reduced by the sum of
39 five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for
40 each month by which his retirement date precedes the
41 first day of the month coincident with or next following
42 the month the member would have attained his 60th
43 birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%)
44 thereof for each month by which his 60th birthday

- 1 precedes the first day of the month coincident with or
- 2 next following his 65th birthday; or
- 3 2. The service retirement allowance as computed under
- 4 G.S. 135-5(b18)(2)a. reduced by five percent (5%) times
- 5 the difference between 30 years and his creditable
- 6 service at retirement; or
- 7 3. If the member's creditable service commenced prior to
- 8 July 1, 1994, the service retirement allowance equal to
- 9 the actuarial equivalent of the allowance payable at the
- 10 age of 60 years as computed in G.S. 135-5(b18)b.
- 11 d. Notwithstanding the foregoing provisions, any member whose
- 12 creditable service commenced prior to July 1, 1963, shall not
- 13 receive less than the benefit provided by G.S. 135-5(b)."

14 **SECTION 3.** G.S. 135-5 is amended by adding a new subsection to read:

15 "(b19) Service Retirement Allowance of Members Retiring on or After
16 July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1)
17 above, on or after July 1, 2001, a member shall receive the following service retirement
18 allowance:

- 19 (1) A member who is a law enforcement officer or an eligible former law
20 enforcement officer shall receive a service retirement allowance
21 computed as follows:
 - 22 a. If the member's service retirement date occurs on or after his
23 55th birthday, and completion of five years of creditable service
24 as a law enforcement officer, or after the completion of 30 years
25 of creditable service, the allowance shall be equal to one and
26 eighty-one hundredths percent (1.81%) of his average final
27 compensation, multiplied by the number of years of his
28 creditable service.
 - 29 b. If the member's service retirement date occurs on or after his
30 50th birthday and before his 55th birthday with 15 or more
31 years of creditable service as a law enforcement officer and
32 prior to the completion of 30 years of creditable service, his
33 retirement allowance shall be equal to the greater of:
 - 34 1. The service retirement allowance payable under G.S.
35 135-5(b19)(1)a. reduced by one-third of one percent (1/3
36 of 1%) thereof for each month by which his retirement
37 date precedes the first day of the month coincident with
38 or next following the month the member would have
39 attained his 55th birthday; or
 - 40 2. The service retirement allowance as computed under
41 G.S. 135-5(b19)(1)a. reduced by five percent (5%) times
42 the difference between 30 years and his creditable
43 service at retirement.

(2) A member who is a correctional officer or an eligible former correctional officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 28 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 28 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 28 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 28 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.

(3) A member who is not a law enforcement officer, an eligible former law enforcement officer, a correctional officer, or an eligible former

1 correctional officer shall receive a service retirement allowance
2 computed as follows:

3 a. If the member's service retirement date occurs on or after his
4 65th birthday upon the completion of five years of membership
5 service or after the completion of 30 years of creditable service
6 or on or after his 60th birthday upon the completion of 25 years
7 of creditable service, the allowance shall be equal to one and
8 eighty-one hundredths percent (1.81%) of his average final
9 compensation, multiplied by the number of years of creditable
10 service.

11 b. If the member's service retirement date occurs after his 60th
12 birthday and before his 65th birthday and prior to his
13 completion of 25 years or more of creditable service, his
14 retirement allowance shall be computed as in G.S. 135-
15 5(b19)(2)a. but shall be reduced by one-quarter of one percent
16 (1/4 of 1%) thereof for each month by which his retirement date
17 precedes the first day of the month coincident with or next
18 following his 65th birthday.

19 c. If the member's early service retirement date occurs on or after
20 his 50th birthday and before his 60th birthday and after
21 completion of 20 years of creditable service but prior to the
22 completion of 30 years of creditable service, his early service
23 retirement allowance shall be equal to the greater of:

24 1. The service retirement allowance as computed under
25 G.S. 135-5(b19)(2)a. but reduced by the sum of five-
26 twelfths of one percent (5/12 of 1%) thereof for each
27 month by which his retirement date precedes the first day
28 of the month coincident with or next following the
29 month the member would have attained his 60th
30 birthday, plus one-quarter of one percent (1/4 of 1%)
31 thereof for each month by which his 60th birthday
32 precedes the first day of the month coincident with or
33 next following his 65th birthday; or

34 2. The service retirement allowance as computed under
35 G.S. 135-5(b19)(2)a. reduced by five percent (5%) times
36 the difference between 30 years and his creditable
37 service at retirement; or

38 3. If the member's creditable service commenced prior to
39 July 1, 1994, the service retirement allowance equal to
40 the actuarial equivalent of the allowance payable at the
41 age of 60 years as computed in G.S. 135-5(b19)b.

42 d. Notwithstanding the foregoing provisions, any member whose
43 creditable service commenced prior to July 1, 1963, shall not
44 receive less than the benefit provided by G.S. 135-5(b)."

1 **SECTION 4.** G.S. 135-5(m) reads as rewritten:

2 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
3 principal beneficiary designated to receive a return of accumulated contributions shall
4 have the right to elect to receive in lieu thereof the reduced retirement allowance
5 provided by Option 2 of subsection (g) above computed by assuming that the member
6 had retired on the first day of the month following the date of his death, provided that
7 the following conditions apply:

8 (1) a. The member had attained such age and/or creditable service to
9 be eligible to commence retirement with an early or service
10 retirement allowance, or

11 b. The member had obtained 20 years of creditable service in
12 which case the retirement allowance shall be computed in
13 accordance with ~~G.S. 135-5(b18)(1)b.~~ G.S. 135-5(b18)(1)b. or
14 ~~G.S. 135-5(b18)(2)c.~~ G.S. 135-5(b18)(2)c., notwithstanding the
15 requirement of obtaining age 50.

16 (2) The member had designated as the principal beneficiary to receive a
17 return of his accumulated contributions one and only one person who
18 was living at the time of his death.

19 (3) The member had not instructed the Board of Trustees in writing that he
20 did not wish the provisions of this subsection to apply.

21 For the purpose of this benefit, a member is considered to be in service at the date of
22 his death if his death occurs within 180 days from the last day of his actual service. The
23 last day of actual service shall be determined as provided in subsection (l) of this
24 section. Upon the death of a member in service, the surviving spouse may make all
25 purchases for creditable service as provided for under this Chapter for which the
26 member had made application in writing prior to the date of death, provided that the
27 date of death occurred prior to or within 60 days after notification of the cost to make
28 the purchase. The term "in service" as used in this subsection includes a member in
29 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
30 Chapter."

31 **SECTION 5.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 999

Short Title: Retirement COLA Increases.

(Public)

Sponsors: Representatives Cox, Barefoot; and Buchanan.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE
JUDICIAL RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT
SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5 is amended by adding a new subsection to read:

"(iii) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 2. G.S. 135-65 is amended by adding a new subsection to read:

"(v) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 3. G.S. 120-4.22A is amended by adding a new subsection to read:

1 "(p) In accordance with subsection (a) of this section, from and after July 1, 2001,
2 the retirement allowance to or on account of beneficiaries whose retirement commenced
3 on or before January 1, 2001, shall be increased by one and six-tenths percent (1.6%) of
4 the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the
5 retirement allowance to or on account of beneficiaries whose retirement commenced
6 after January 1, 2001, but before June 30, 2001, shall be increased by a prorated amount
7 of one and six-tenths percent (1.6%) of the allowance payable as determined by the
8 Board of Trustees based upon the number of months that a retirement allowance was
9 paid between January 1, 2001, and June 30, 2001."

10 **SECTION 4.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(zz) From and after July 1, 2001, the retirement allowance to or on account of
12 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
13 by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in
14 accordance with subsection (k) of this section. Furthermore, from and after July 1, 2001,
15 the retirement allowance to or on account of beneficiaries whose retirement commenced
16 after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of
17 one and six-tenths percent (1.6%) of the allowance payable as determined by the Board
18 of Trustees based upon the number of months that a retirement allowance was paid
19 between July 1, 2000, and June 30, 2001."

20 **SECTION 5.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 999
PROPOSED COMMITTEE SUBSTITUTE H999-CSRO-17 [v.1]

5/8/2001 7:10:16 PM

Short Title: Retirement COLA Increases.

(Public)

Sponsors:

Referred to:

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE
JUDICIAL RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT
SYSTEM, AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT
SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5 is amended by adding a new subsection to read:

"(iii) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 2. G.S. 135-65 is amended by adding a new subsection to read:

"(v) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 3. G.S. 120-4.22A is amended by adding a new subsection to read:

1 "(p) In accordance with subsection (a) of this section, from and after July 1, 2001,
2 the retirement allowance to or on account of beneficiaries whose retirement commenced
3 on or before January 1, 2001, shall be increased by one and six-tenths percent (1.6%) of
4 the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the
5 retirement allowance to or on account of beneficiaries whose retirement commenced
6 after January 1, 2001, but before June 30, 2001, shall be increased by a prorated amount
7 of one and six-tenths percent (1.6%) of the allowance payable as determined by the
8 Board of Trustees based upon the number of months that a retirement allowance was
9 paid between January 1, 2001, and June 30, 2001."

10 **SECTION 4.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(zz) From and after July 1, 2001, the retirement allowance to or on account of
12 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
13 by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in
14 accordance with subsection (k) of this section. Furthermore, from and after July 1, 2001,
15 the retirement allowance to or on account of beneficiaries whose retirement commenced
16 after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of
17 one and six-tenths percent (1.6%) of the allowance payable as determined by the Board
18 of Trustees based upon the number of months that a retirement allowance was paid
19 between July 1, 2000, and June 30, 2001."

20 **SECTION 5.** This act becomes effective July 1, 2001.
21



HOUSE BILL 999: Retirement COLA Increases.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 9, 2001
Version: Proposed Committee Substitute
(H999-CSRO-17)

Introduced by: Reps. Cox and Barefoot
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 999 provides a one and six-tenths percent (1.6%) increase to retired beneficiaries of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Local Governmental Employees' Retirement System, and the Legislative Retirement System. The increase becomes effective July 1, 2001.*

BILL ANALYSIS:

Section 1.

Chapter 135, Article 1, Section 5 of the General Statutes pertains to the benefits of the *Retirement System for Teachers and State Employees*. House Bill 999 increases by one and six-tenths percent (1.6%), the retirement allowance paid to or on account of beneficiaries whose retirement commenced on or before July 1, 2000. Beneficiaries whose retirement commences after July 1, 2000, but before June 30, 2001 shall receive a prorated amount of the increase.

Section 2.

Chapter 135, Article 4, Section 65 of the General Statutes pertains to the post-retirement increases in allowances in the *Consolidated Judicial Retirement System*. The bill increases by one and six-tenths percent (1.6%), the retirement allowance paid to or on account of beneficiaries whose retirement commenced on or before July 1, 2000. Beneficiaries whose retirement commences after July 1, 2000, but before June 30, 2001 shall receive a prorated amount of the increase.

Section 3.

Chapter 120, Article 1A, Section 22A of the General Statutes pertains to the post-retirement increases in allowances in the *Legislative Retirement System*. House Bill 999 increases by one and six-tenths percent (1.6%), the retirement allowance paid to or on account of beneficiaries whose retirement commenced on or before January 1, 2001. Beneficiaries whose retirement commences after January 1, 2001, but before June 30, 2001 shall receive a prorated amount of the increase.

Section 4.

Chapter 128, Article 3, Section 27 of the General Statutes pertains to the benefits of the *Local Governmental Employees' Retirement System*. House Bill 999 increases by one and six-tenths percent (1.6%), the retirement allowance paid to or on account of beneficiaries whose retirement commenced on or before July 1, 2000. Beneficiaries whose retirement commences after July 1, 2000, but before June 30, 2001 shall receive a prorated amount of the increase.

This act becomes effective July 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

Goldman, Director
Administrative Division
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Terrence D. Sullivan, Director
Research Division
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

April 16, 2001

MEMORANDUM

TO: Representatives Barefoot & Cox

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 999

Re: Provides a post-retirement increase of one and six-tenths percent (1.6%) in the benefits of retirees of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 10, 2001
- (3) Actuarial Note, Hartman & Associates, April 10, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

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	<u>\$ 9.5M</u>	<u>\$ 10.1M</u>	<u>\$ 10.7M</u>	<u>\$ 11.3M</u>	<u>\$ 12.0M</u>
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	<u>\$ 8.6M</u>	<u>\$ 9.2M</u>	<u>\$ 9.7M</u>	<u>\$10.3M</u>	<u>\$ 10.9M</u>
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.

Legislative Retirement System

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:

Local Governmental Employee's Retirement System

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

PREPARED BY:

Stanley Moore



APPROVED BY:

James D. Johnson



DATE:

April 12, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 10, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 999

Dear Mr. Williamson:

We have received your letter of April 6 regarding House Bill 999 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

This legislation appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries equal to 1.6% for those who commenced retirement on and before July 1, 2000, and a prorated portion of the 1.6% post-retirement increase for those who commenced retirement July 1, 2000 and before June 30, 2001, with all increases payable effective July 1, 2001.

The cost of this legislation as a percentage of payroll is shown in the following table. The increases in the contribution rates are based on 9 year amortization of the additional unfunded accrued liability under the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System. The increase under the Local Governmental Employees' Retirement System is shown as an increase in the normal rate.

System	Increase in Employer Contribution Rate
Teachers' and State Employees'	0.44%
Local Governmental Employees'	0.16
Consolidated Judicial	0.63

Mr. Michael L. Williamson

April 10, 2001

Page 2

As a technical observation, there appears to be an error in Section 1 of the Bill that makes it unclear whether retired members of the Teachers' and State Employees' Retirement System who commenced retirement on or after July 1, 2000 are entitled to the full 1.6% post-retirement increase or only a prorated portion thereof. More specifically, it appears that July 1, 2001 as it appears on line 9 of the Bill should be July 1, 2000.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

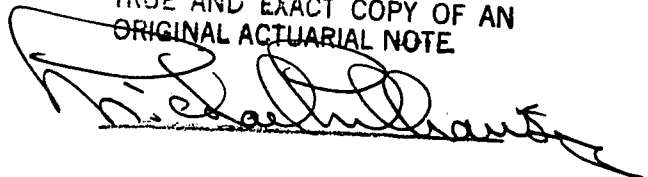


Edward A. Macdonald
Principal and Consulting Actuary

EAM:jg

P:\NCTE\2001\Doc\Corr\HB999.DOC

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



BUCK
CONSULTANTS

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 10, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 999: An Act to Provide Cost-of-Living Increases
for Retirees in the TSERS, CJRS, LRS, and LGERS Systems

Dear Mr. Moore:

This bill would amend G.S. 135-5, G.S. 135-65, G.S. 120-4.22A, and G.S. 128-27 to provide a cost-of-living increase for benefits payable to retirees from the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS). The benefit increases provided by this bill are as follows:

1. In the TSERS, CJRS, and LGERS the bill would increase the retirement allowances 1.6% for all beneficiaries who retired on or before July 1, 2000, with a prorated increase for retirements between July 1, 2000 and June 30, 2001.
2. In the LRS, the bill would provide a 1.6% increase in the retirement allowances payable to beneficiaries whose retirement began on or before January 1, 2001, with a prorated increase for retirements after January 1, 2001 and before June 30, 2001.

All provisions of this act are effective July 1, 2001. The estimated costs for the fiscal year beginning July 1, 2001, expressed as a percent of payroll, are shown below.

Mr. Stanley Moore
April 10, 2001

Page 2

<u>System</u>	<u>Cost for Retiree COLA</u>	<u>Amort. Period for Unfunded Liability</u>
TSERS	0.40%	9 years
CJRS	0.55	9 years
LRS	0.80	5 years
LGERS	0.13	n/a

These estimates are based on information contained in the most recent actuarial valuations prepared as of December 31, 1999.

If you have any questions, let me know.

Sincerely,

Mark Hartman

Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

**HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT**

— **2001 – 2002 SESSION**

COMMITTEE CHAIRS
Representatives Barefoot and Cox

COMMITTEE VICE CHAIR
Representative McCombs

Jackie Pittman and Jennifer Edwards

COMMITTEE ASSISTANTS

MINUTES
HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT

May 16, 2001

The House Committee on Pensions and Retirement met on Wednesday, May 16, 2001, in Room 415 of the Legislative Office Building at 12 Noon. The following members were present: Chairman Dan Barefoot; Chairman Leslie Cox; Vice-Chairman Gene McCombs; Representatives Barbee, Easterling, Hensley, Rogers, Shubert, Starnes, Tolson, Connie Wilson, and Yongue. Stanley Moore, Fiscal Research, and Karen Cochran-Brown, Research Division, were also in attendance. A Visitor Registration list is attached and made part of these minutes.

Chairman Cox called the meeting to order. He recognized Mr. Stanley Moore, Fiscal Research Division, to explain Representative David Redwine's bill – HB1241 – A BILL TO BE ENTITLED AN ACT TO INCLUDE SICK LEAVE IN THE COMPUTATION OF SERVICE RETIREMENT BENEFITS FOR MEMBERS OF THE JUDICIAL RETIREMENT SYSTEM IN THE SAME MANNER THAT IT IS INCLUDED FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM. Mr. Moore stated that the bill revises the service retirement allowance related to the Teachers' and State Employees' Retirement System to include any sick leave standing to the credit of the member in computing the length of creditable service. A copy of the bill, actuarial note, and bill summary are attached and made part of these minutes.

Representative Hensley was recognized and made a motion to give the bill a favorable report with recommendation that the bill be re-referred to the Committee on Appropriations; motion carried.

Representative Rogers was recognized to explain Committee Substitute for HB243 – A BILL TO BE ENTITLED AN ACT TO AMEND THE DEFINITION OF THE TERM "TEACHER" FOR PURPOSES OF MEMBERSHIP IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM. Representative Rogers said the intention of the bill is to motivate part-time teachers into the teaching profession. The bill makes certain part-time public school teachers eligible to participate in the Teachers' and State Employees' Retirement System. The committee substitute limits that eligibility to part-time teachers who work between 20 and 30 hours a week and who (1) are employed in low-performing schools or (2) are employed in the teacher's area of certification and that area has been found by the State board of Education to be in critical teacher shortage. A copy of the committee substitute, fiscal note, and bill summary are attached and made part of these minutes.

Mr. Moore was recognized by Chairman Cox and stated that the addition of another group of employees becoming eligible for membership in the Teachers' and State Employees' Retirement System does not put additional liability upon the system. The

necessary employee and employer contribution would be adequate to fund the plan. He stated further that this is the first variance from a full-time system for the allowance of part-time employee participation.

Representative Connie Wilson made a motion to give the Committee Substitute for HB243 a favorable report, unfavorable as to original bill, with recommendation that the committee substitute be re-referred to the Committee on Appropriations.

Concerns were expressed regarding lines 22-25 of page 1 of the committee substitute. Also, Mr. Michael Williamson, Director, State Retirement System, expressed concern that individuals who had worked part-time their entire career would, at the end of their careers, would work full-time the last four years so as to be entitled to retire with full retirement. He stated this would create an actuarial burden on the system.

Chairman Cox pulled the bill from the agenda to allow committee members time to have their concerns addressed.

Chairman Cox turned the chair over to Chairman Barefoot.

Chairman Barefoot recognized Chairman Cox to explain HB1255 – A BILL TO BE ENTITLED AN ACT TO ENHANCE THE BENEFITS PAYABLE FROM THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM. A copy of the bill, an amendment, actuarial note from Fiscal Research Division, actuarial note from Department of State Treasurer, and a bill summary are attached and made a part of these minutes. The bill increases benefits payable to law enforcement officers and other state employees from 1.80% of average final compensation to 1.83%, and increases retirement allowance for retired persons 3.5%. It increases retirement allowance for retired members of the General Assembly by 3.5%. The bill increases benefits payable to local government employees from 1.78% of average final compensation to 1.83% and increases retirement allowance for retired local government employees by 3.5%. Mr. Leigh Hammond, NC Retired Government Employees' Association, also spoke on the bill.

Mr. Ellis Hankins, Executive Director, NC League of Municipalities, stated that the league supports HB1255.

Chairman Barefoot stated that staff had presented an amendment, technical in nature, to amend the bill on page 5, line 8, deleting the words "July 1, 2001," and substituting the words "July 1, 2000.". The amendment was adopted. A copy of amendment is attached and made part of minutes.

Representative Barbee was recognized and made a motion to roll the amendment into a Committee Substitute for HB1255, that the committee substitute be given a favorable report, unfavorable as to original bill, and that the committee substitute be re-referred to the Committee on Appropriations; motion carried.

Chairman Barefoot stated that with approval of Committee Substitute for HB1255, committee discussion would be deferred on HB999 – AN ACT TO PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE JUDICIAL RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT SYSTEM. A copy of the bill, actuarial note from Fiscal Research Division, and an actuarial note from Department of State Treasurer are attached and made a part of these minutes.

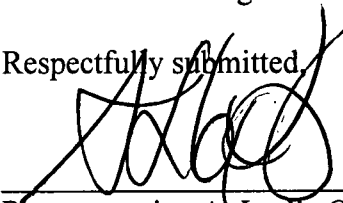
Chairman Barefoot returned the chair to Chairman Cox.

Chairman Cox recognized Mr. Michael Williamson, Director, Retirement Division of the Department of State Treasurer and Mr. C. Douglas Chappell, Director, Investment and Banking Division of the Department of State Treasurer. Mr. Chappell provided information on the current status and market value of the retirement systems' pension fund assets. A copy of the handout they provided committee members is attached and made a part of these minutes.

Chairman Cox requested Mr. Williamson and Mr. Chappell to provide additional information at a later meeting to further answer questions of committee members.

There being no further business, the Chairman adjourned the meeting at 12:50PM.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Representative Daniel W. Barefoot
Chairman



Ferebee Stainback
Committee Assistant

VISITOR REGISTRATION SHEET

Pension & Retirement
Name of Committee

5-16-01
Date

VISITORS: PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Paul F. Miller	N.C. State Firemen's Assoc.
Frank Ayers	NCA SA
Al Dawson	NCRSP
Prescott J.	NCRSP
Ron McHenry	NCAE
Leif Galloen	NCAE
Ed Coburn	N.E. Ret. Emp. Assn.
Jack Hammond	NC Ret. Emp. Assn.
Frank Law's	OSBPM
Sherry Neeter	SEANC
John Washington	AOC
Joseph M. Sansom	NCAG
Susan Valami	TREAS DEPT
Bob Goss	Nationwide
Walter L. Baum	Treas Dept
Debra Byron	Dept of State Treasurers
Mr. David Williamson	" "
Lance Rauler	NCA CC
Mike Garland	Electricities
AB	SBE
FRAN NOGAN	Grossmont Electric Men
Steve Hoffman	NCSBA
Catherine Davis	Electric City
George Kline	NCSBA
Brandon Thomas	
Clifford Kite	1001
Jamie Woodlief	SBE

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1241

Short Title: Sick Leave/Judicial Retirement System.

(Public)

Sponsors: Representative Redwine.

Referred to: Pensions and Retirement.

April 12, 2001

A BILL TO BE ENTITLED

AN ACT TO INCLUDE SICK LEAVE IN THE COMPUTATION OF SERVICE RETIREMENT BENEFITS FOR MEMBERS OF THE JUDICIAL RETIREMENT SYSTEM IN THE SAME MANNER THAT IT IS INCLUDED FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-58(a2) reads as rewritten:

"(a2) Any member who retires under the provisions of G.S. 135-57(a) or G.S. 135-57(c) on or after July 1, 1999, but before July 1, 2001, after the member has either attained the member's 65th birthday or has completed 24 years or more of creditable service, shall receive an annual retirement allowance, payable monthly, which shall commence on the effective date of the member's retirement and shall be continued on the first day of each month thereafter during the member's lifetime, the amount of which shall be computed as the sum of the amounts in subdivisions (1), (2), (3), (4), and (5) following, provided that in no event shall the annual allowance payable to any member be greater than an amount which, when added to the allowance, if any, to which the member is entitled under the Teachers' and State Employees' Retirement System, the Legislative Retirement System, or the Local Governmental Employees' Retirement System (prior in any case to any reduction for early retirement or for an optional mode of payment) would total three-fourths of the member's final compensation:

- (1) Four and two-hundredths percent (4.02%) of the member's final compensation, multiplied by the number of years of creditable service rendered as a justice of the Supreme Court or judge of the Court of Appeals;
- (2) Three and fifty-two hundredths percent (3.52%) of the member's final compensation, multiplied by the number of years of creditable service rendered as a judge of the superior court or as Administrative Officer of the Courts;

- 1 (3) Three and two-hundredths percent (3.02%) of the member's final
2 compensation, multiplied by the number of years of creditable service,
3 rendered as a judge of the district court, district attorney, or clerk of
4 superior court;
- 5 (4) A service retirement allowance computed in accordance with the
6 service retirement provisions of Article 3 of Chapter 128 of the
7 General Statutes using an average final compensation as defined in
8 G.S. 135-53(2a) and creditable service equal to the number of years of
9 the member's creditable service that was transferred from the Local
10 Governmental Employees' Retirement System to this System as
11 provided in G.S. 135-56; and
- 12 (5) A service retirement allowance computed in accordance with the
13 service retirement provisions of Article 1 of this Chapter using an
14 average final compensation as defined in G.S. 135-53(2a) and
15 creditable service equal to the number of years of the member's
16 creditable service that was transferred from the Teachers' and State
17 Employees' Retirement System to this System as provided in G.S.
18 135-56."

19 **SECTION 2.** G.S. 135-58 is amended by adding a new subsection to read:

20 "(a3) Any member who retires under the provisions of G.S. 135-57(a) or G.S. 135-
21 57(c) on or after July 1, 2001, after the member has either attained the member's 65th
22 birthday or has completed 24 years or more of creditable service, shall receive an annual
23 retirement allowance, payable monthly, which shall commence on the effective date of
24 the member's retirement and shall be continued on the first day of each month thereafter
25 during the member's lifetime, the amount of which shall be computed as the sum of the
26 amounts in subdivisions (1), (2), (3), (4), and (5) following, provided that in no event
27 shall the annual allowance payable to any member be greater than an amount which,
28 when added to the allowance, if any, to which the member is entitled under the
29 Teachers' and State Employees' Retirement System, the Legislative Retirement System,
30 or the Local Governmental Employees' Retirement System (prior in any case to any
31 reduction for early retirement or for an optional mode of payment) would total three-
32 fourths of the member's final compensation:

- 33 (1) Four and two-hundredths percent (4.02%) of the member's final
34 compensation, multiplied by the number of years of creditable service
35 rendered as a justice of the Supreme Court or judge of the Court of
36 Appeals;
- 37 (2) Three and fifty-two hundredths percent (3.52%) of the member's final
38 compensation, multiplied by the number of years of creditable service
39 rendered as a judge of the superior court or as Administrative Officer
40 of the Courts;
- 41 (3) Three and two-hundredths percent (3.02%) of the member's final
42 compensation, multiplied by the number of years of creditable service,
43 rendered as a judge of the district court, district attorney, or clerk of
44 superior court;

1 (4) A service retirement allowance computed in accordance with the
2 service retirement provisions of Article 3 of Chapter 128 of the
3 General Statutes using an average final compensation as defined in
4 G.S. 135-53(2a) and creditable service equal to the number of years of
5 the member's creditable service that was transferred from the Local
6 Governmental Employees' Retirement System to this System as
7 provided in G.S. 135-56; and

8 (5) A service retirement allowance computed in accordance with the
9 service retirement provisions of Article 1 of this Chapter using an
10 average final compensation as defined in G.S. 135-53(2a) and
11 creditable service, including any sick leave standing to the credit of the
12 member, equal to the number of years of the member's creditable
13 service that was transferred from the Teachers' and State Employees'
14 Retirement System to this System as provided in G.S. 135-56."

15 **SECTION 3.** This act becomes effective July 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

Goldman, Director
Administrative Division
Room 9, Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
(919) 733-7500

Gerry F. Cohen, Director
Bill Drafting Division
Suite 401, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6660

James D. Johnson, Director
Fiscal Research Division
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300 N. Salisbury St.
Raleigh, NC 27603-5925
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Dennis W. McCarty, Director
Information Systems Division
Suite 400, LOB
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(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

May 8, 2001

MEMORANDUM

TO: Representative David Redwine

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1241

Re: Includes sick leave as creditable service in the Judicial Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, May 2, 2001
- (3) Actuarial Note, Hartman & Associates, May 4, 2001

SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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

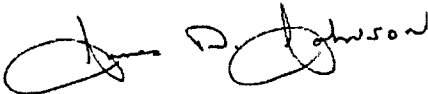
PREPARED BY:

Stanley Moore



APPROVED BY:

James D. Johnson



DATE:

May 7, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1241

SHORT TITLE: Sick Leave/Judicial Retirement System

SPONSOR(S): Representative Redwine

SYSTEM OR PROGRAM AFFECTED: Consolidated Judicial Retirement System

FUNDS AFFECTED: General Fund

BILL SUMMARY: Presently, there is no allowance for service for sick leave for a member of the Judicial System, since these members do not earn sick leave. If any member of the Judicial System has five years of service, they are allowed to transfer any service in the Teachers' and State Employees' Retirement System into the Judicial System. At retirement, the benefit is calculated at the rate as benefits are calculated in the Teachers' and State Employees' Retirement System, presently at an accrual rate of 1.81% per year, but using an average final compensation based on last four years.

This bill will allow additional service credits in the Judicial Retirement System for any sick leave a member might have accumulated while a State employee. One month of service would be allowed for each 20 days or portion thereof of service leave standing to the member's credit.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: Buck Consultants estimates that there is some cost of the proposal but estimates the cost to be negligible.

Hartman & Associates estimates the cost to be between 0.03% and 0.07% of estimated payroll.

	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$18,000-\$35,000	\$15,700-\$36,700	\$16,500-\$38,400	\$17,300-\$40,300	\$18,100-\$42,200

ASSUMPTIONS AND METHODOLOGY: 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.

**BUCK
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

May 2, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1241

Dear Mr. Williamson:

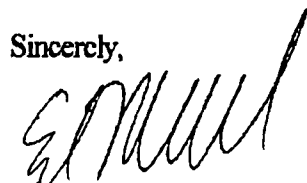
We have received your letter of April 17 regarding House Bill 1241 which affects the Consolidated Judicial Retirement System.

This legislation appears to cause sick leave to be included in the computation of service retirement benefits in the same manner that it is included for members of the Teachers' and State Employees' Retirement System. More specifically, this Bill appears to amend the provisions that provide the computation of a portion of the retirement benefit based upon creditable service transferred from the Teachers' and State Employees' Retirement System to include any sick leave standing to the credit of the member.

The cost of this legislation is negligible.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

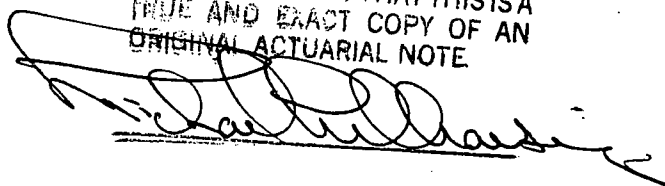


Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq

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THIS IS TO CERTIFY THAT THIS IS A
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Buck Consultants, Inc.

770/955-2488 Fax 770/933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

May 4, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1241: An Act to Include Sick Leave in the Computation
of Service Retirement Benefits for Members of the CJRS in the
Same Manner That It Is Included for Members of the TSERS

Dear Mr. Moore:


This bill amends G.S. 135-58 to include sick leave in computing a service retirement allowance for service transferred from the Teachers' and State Employees' Retirement System (TSERS) to the Consolidated Judicial Retirement System (CJRS). Currently, a member with five years of service in the CJRS may transfer service credits from the TSERS; however, unused sick leave is not included in the CJRS retirement calculation. This act becomes effective July 1, 2001.

The effect of this bill would be an increase in service credits upon retirement for members of the CJRS who (i) have service credits in the TSERS, (ii) had accumulated unused sick leave in the TSERS, and (iii) earn at least 5 years service credit in the CJRS. The estimated financial impact is an increase in the annual cost of 0.03% to 0.07% of payroll. This provides amortization of the additional accrued liability over a 9 year period.

This estimate is based on the most recent actuarial valuation prepared as of December 31, 1999, and information provided by you regarding 162 members of the CJRS with prior service in the TSERS.

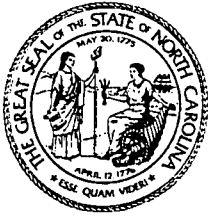
If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt



HOUSE BILL 1241: Sick Leave/Judicial Retirement System.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 16, 2001
Version: First Edition

Introduced by: Rep. Redwine
Summary by: Karen Cochran Brown
Committee Counsel

SUMMARY: *House Bill 1241 amends the law governing the Consolidated Judicial Retirement System to allow members who have transferred service from the Teachers' and State Employees' Retirement System to have their retirement allowance computed including any sick leave standing to the credit of the member. This act would apply only to members who retire on or after July 1, 2001.*

CURRENT LAW:

Under current law, members of the Consolidated Judicial Retirement System are not entitled to include sick leave as service for retirement purposes, since these members do not earn sick leave. The benefit is calculated by computing the sum of all service rendered as:

- A Supreme Court justice or a Court of Appeals judge;
- A superior court judge or as Administrative Officer of the Courts;
- A district court judge, district attorney, or clerk of superior court;
- Service transferred from the Local Governmental Employees' Retirement System; and
- Service transferred from the Teachers' and State Employees' Retirement System.

However, the service transferred from the Teachers' and State Employees' Retirement System does not include sick leave, as it would if the member had retired from that System.

BILL ANALYSIS:

This bill would allow creditable service transferred from the Teachers' and State Employees' Retirement System to the Consolidated Judicial Retirement System to include any sick leave the member might have accumulated while a serving as a state employee. Just as in the State System, one month of service would be allowed for each 20 days or portion thereof of sick leave standing to the member's credit. This change would apply to members who retire on or after July 1, 2001, only.

This act would become effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 243
Committee Substitute Favorable 4/23/01

Short Title: Teacher Retirement Eligibility.

(Public)

Sponsors:

Referred to:

February 26, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO AMEND THE DEFINITION OF THE TERM "TEACHER" FOR
3 PURPOSES OF MEMBERSHIP IN THE TEACHERS' AND STATE
4 EMPLOYEES' RETIREMENT SYSTEM.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. G.S. 135-1(25) reads as rewritten:

7 "(25) "Teacher" shall mean any teacher, helping teacher, librarian, principal,
8 supervisor, superintendent of public schools or any full-time
9 employee, city or county, superintendent of public instruction, or any
10 full-time employee of Department of Public Instruction, president,
11 dean or teacher, or any full-time employee in any educational
12 institution supported by and under the control of the State: Provided,
13 ~~that that, except as otherwise provided in this subdivision, the term~~
14 "teacher" shall not include any part-time, temporary, or substitute
15 teacher or employee, and shall not include those participating in an
16 optional retirement program provided for in G.S. 135-5.1. In all cases
17 of doubt, the Board of Trustees, ~~hereinafter defined, Trustees~~ shall
18 determine whether any person is a teacher as defined in this Chapter.
19 The term "teacher" includes teachers as defined in G.S. 115C-
20 325(a)(6) who are employed to teach in permanent positions, who
21 work not less than 20 hours or more than 30 hours per week, and who
22 are employed in low-performing schools or are employed to teach in
23 the teacher's area of certification provided the State Board of
24 Education has determined there is a shortage of certified teachers in
25 that subject area."

26 SECTION 2. This act becomes effective July 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-7044

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Raleigh, NC 27603-5925
(919) 733-2578

March 20, 2001

MEMORANDUM

TO: Representative Rogers

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill ²⁴³~~423~~

Re: Allow teachers who work not less than 50% of the time to be required to be a member of the system.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, March 1, 2001
- (3) Actuarial Note, Hartman & Associates, March 13, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 243

SHORT TITLE: Teachers Retirement Eligibility

SPONSOR(S): Representative Rogers

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

BILL SUMMARY: Under present law, an employee must work at least 30 hours per week on a recurring basis for nine or more months per year in order to be a member of the Teachers' and State Employees' Retirement System. This bill will allow teachers who work not less than 50% of the time to be required to be a member of the system.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: Buck Consultants and Hartman & Associates state that the normal contributions paid on behalf of all members of the System will be adequate to fund the cost of these estimated 2,000 additional members.

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.

SOURCES OF DATA: Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson 

DATE: March 19, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

March 1, 2001

Mr. Jack Pruitt
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1388

House Bill 243

Dear Mr. Pruitt:

We have received your letter of February 26 regarding House Bill 243 which affects the Teachers' and State Employees' Retirement System.

This legislation appears to mandate membership in the Retirement System, prospectively, for teachers "who work not less than fifty percent (50%) of the time that is required of a person who is employed as a teacher."

There would be no increase in the employer contribution rates on account of this legislation. It is our understanding that there are about 2,000 persons affected by this legislation. The cost to the State would be equal to the current employer contribution rates applied to the payroll of the affected members.

Persons who become members as a result of this legislation could create an actuarial loss to the Retirement System by switching to full-time positions near the end of their careers.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

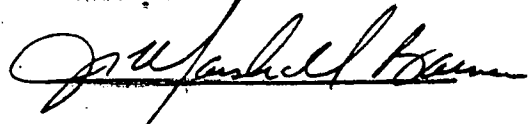
Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq
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HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

March 13, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 243: An Act to Amend the Definition of Teacher
for Purposes of Membership in the TSERS

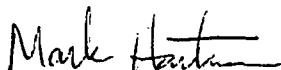
Dear Mr. Moore:

This bill amends G.S. 135-1(25) to expand the definition of teacher for purposes of membership in the North Carolina Teachers' and State Employees' Retirement System (TSERS). Currently, part-time teachers are not included in the TSERS. This bill includes teachers who are employed to teach in permanent positions and who work at least 50% of the time that is required of a person who is employed as a teacher as defined in G.S. 115C-325(6). This act becomes effective July 1, 2001.

You have indicated that there are approximately 2,000 employees who would become eligible in the TSERS under the provisions of this bill. Assuming the demographics of these employees are similar to current covered teachers, the estimated cost of providing the retirement, death, disability, and retiree health benefits under this plan would be covered by the current plan contribution rate, applied to the payroll of the newly eligible employees. This amount does not include the cost of providing health insurance benefits for these employees.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



HOUSE BILL 243: Teacher Retirement Eligibility.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 16, 2001
Version: Second Edition

Introduced by: Rep. Rogers
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 243 would allow persons employed in permanent positions as teachers to participate in the State Retirement System provided they work between 20 and 30 hours per week and teach in either a low-performing school or in a subject area the State Board has determined is a certification shortage area. The act would become effective July 1, 2001*

CURRENT LAW:

Only teachers who are employed full-time may participate in the State Retirement System. G.S. 135-1(25) defines "teacher" to include teachers, librarians, principals, supervisors, superintendents and full-time employees of a local school administrative unit. The State Board of Education defines a "full-time employee" as someone whose regular workweek is not less than 30 hours. SBE Benefits and Policy Manual, Policy #01.1.3. Persons employed less than 30 hours per week by a Local School Administrative unit are not eligible to participate in the retirement system. If they work between 20 and 30 hours, they may opt to purchase health insurance under the State plan.

BILL ANALYSIS: House Bill 243 amends G.S. 135-1(25) to include in the Retirement System teachers who are employed to teach between 20 and 30 hours per week. It also requires the teacher must either teach at a low-performing school or in a certification area the State Board has determined has a shortage of teachers. G.S. 115C-325(a)(6) defines a "teacher" as a person who has a current teaching certificate, whose major responsibility is to teach or directly supervise teaching, who is classified or paid as a classroom teacher, and who is employed to fill a full-time, permanent position. A permanent employee is defined as a person hired to fill a position with the expectation of permanent employment if funding remains constant, or a person who will be paid for at least 6 consecutive pay periods to replace a person on a leave of absence. A full time employee is a person whose workweek is not less than 30 hours per week.

This act would become effective July 1, 2001.

Kory Goldsmith contributed to this summary.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1255*

Short Title: Increase Retirement Benefits.

(Public)

Sponsors: Representatives Barefoot, Cox (Primary Sponsors); Russell, Wainwright, and Thompson.

Referred to: Pensions and Retirement.

April 12, 2001

A BILL TO BE ENTITLED

AN ACT TO ENHANCE THE BENEFITS PAYABLE FROM THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000, 2000, but Before July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member shall receive the following service retirement allowance.

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.
- b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance.

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-three hundredths percent (1.83%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- 1 a. If the member's service retirement date occurs on or after his
2 65th birthday upon the completion of five years of membership
3 service or after the completion of 30 years of creditable service
4 or on or after his 60th birthday upon the completion of 25 years
5 of creditable service, the allowance shall be equal to one and
6 eighty-three hundredths percent (1.83%) of his average final
7 compensation, multiplied by the number of years of creditable
8 service.
- 9 b. If the member's service retirement date occurs after his 60th
10 birthday and before his 65th birthday and prior to his
11 completion of 25 years or more of creditable service, his
12 retirement allowance shall be computed as in G.S. 135-
13 5(b19)(2)a. but shall be reduced by one-quarter of one percent
14 (1/4 of 1%) thereof for each month by which his retirement date
15 precedes the first day of the month coincident with or next
16 following his 65th birthday.
- 17 c. If the member's early service retirement date occurs on or after
18 his 50th birthday and before his 60th birthday and after
19 completion of 20 years of creditable service but prior to the
20 completion of 30 years of creditable service, his early service
21 retirement allowance shall be equal to the greater of:
- 22 1. The service retirement allowance as computed under
23 G.S. 135-5(b19)(2)a. but reduced by the sum of five-
24 twelfths of one percent (5/12 of 1%) thereof for each
25 month by which his retirement date precedes the first day
26 of the month coincident with or next following the
27 month the member would have attained his 60th
28 birthday, plus one-quarter of one percent (1/4 of 1%)
29 thereof for each month by which his 60th birthday
30 precedes the first day of the month coincident with or
31 next following his 65th birthday; or
- 32 2. The service retirement allowance as computed under
33 G.S. 135-5(b19)(2)a. reduced by five percent (5%) times
34 the difference between 30 years and his creditable
35 service at retirement; or
- 36 3. If the member's creditable service commenced prior to
37 July 1, 1994, the service retirement allowance equal to
38 the actuarial equivalent of the allowance payable at the
39 age of 60 years as computed in G.S. 135-5(b19)b.
- 40 d. Notwithstanding the foregoing provisions, any member whose
41 creditable service commenced prior to July 1, 1963, shall not
42 receive less than the benefit provided by G.S. 135-5(b)."

43 **SECTION 3.** G.S. 135-5 is amended by adding two new subsections to read:

1 "(iii) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2001. –
2 From and after July 1, 2001, the retirement allowance to or on account of beneficiaries
3 on the retirement rolls as of June 1, 2001, shall be increased by one and one-tenth
4 percent (1.1%) of the allowance payable on June 1, 2001. This allowance shall be
5 calculated on the allowance payable and in effect on June 30, 2001, so as not to be
6 compounded on any other increase granted by act of the 2001 General Assembly.

7 (jjj) From and after July 1, 2001, the retirement allowance to or on account of
8 beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased
9 by three and five-tenths percent (3.5%) of the allowance payable on June 1, 2001, in
10 accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2001, the retirement
11 allowance to or on account of beneficiaries whose retirement commenced after July 1,
12 2000, but before June 30, 2001, shall be increased by a prorated amount of three and
13 five-tenths percent (3.5%) of the allowance payable as determined by the Board of
14 Trustees based upon the number of months that a retirement allowance was paid
15 between July 1, 2000, and June 30, 2001."

16 **SECTION 4. G.S. 135-5(m) reads as rewritten:**

17 "(m) **Survivor's Alternate Benefit. –** Upon the death of a member in service, the
18 principal beneficiary designated to receive a return of accumulated contributions shall
19 have the right to elect to receive in lieu thereof the reduced retirement allowance
20 provided by Option 2 of subsection (g) above computed by assuming that the member
21 had retired on the first day of the month following the date of his death, provided that
22 the following conditions apply:

- 23 (1) a. The member had attained such age and/or creditable service to
24 be eligible to commence retirement with an early or service
25 retirement allowance, or
26 b. The member had obtained 20 years of creditable service in
27 which case the retirement allowance shall be computed in
28 accordance with ~~G.S. 135-5(b18)(1)b. or G.S. 135-5(b18)(2)c.,~~
29 G.S. 135-5(b19)(1)b. or G.S. 135-5(b19)(2)c., notwithstanding
30 the requirement of obtaining age 50.
31 (2) The member had designated as the principal beneficiary to receive a
32 return of his accumulated contributions one and only one person who
33 was living at the time of his death.
34 (3) The member had not instructed the Board of Trustees in writing that he
35 did not wish the provisions of this subsection to apply.

36 For the purpose of this benefit, a member is considered to be in service at the date of
37 his death if his death occurs within 180 days from the last day of his actual service. The
38 last day of actual service shall be determined as provided in subsection (l) of this
39 section. Upon the death of a member in service, the surviving spouse may make all
40 purchases for creditable service as provided for under this Chapter for which the
41 member had made application in writing prior to the date of death, provided that the
42 date of death occurred prior to or within 60 days after notification of the cost to make
43 the purchase. The term "in service" as used in this subsection includes a member in

1 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
2 Chapter."

3 **SECTION 5.** G.S. 135-65 is amended by adding a new subsection to read:

4 "(v) From and after July 1, 2001, the retirement allowance to or on account of
5 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
6 by three and five-tenths percent (3.5%) of the allowance payable on June 1, 2001.
7 Furthermore, from and after July 1, 2001, the retirement allowance to or on account of
8 beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001,
9 shall be increased by a prorated amount of three and five-tenths percent (3.5%) of the
10 allowance payable as determined by the Board of Trustees based upon the number of
11 months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

12 **SECTION 6.** G.S. 120-4.22A is amended by adding a new subsection to
13 read:

14 "(p) In accordance with subsection (a) of this section, from and after July 1, 2001,
15 the retirement allowance to or on account of beneficiaries whose retirement commenced
16 on or before January 1, 2001, shall be increased by three and five-tenths percent (3.5%)
17 of the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the
18 retirement allowance to or on account of beneficiaries whose retirement commenced
19 after January 1, 2001, but before June 30, 2001, shall be increased by a prorated amount
20 of three and five-tenths percent (3.5%) of the allowance payable as determined by the
21 Board of Trustees based upon the number of months that a retirement allowance was
22 paid between January 1, 2001, and June 30, 2001."

23 **SECTION 7.** G.S. 128-27(b18) reads as rewritten:

24 "(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000.
25 2000, but Before July 1, 2001. – Upon retirement from service in accordance with
26 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
27 shall receive the following service retirement allowance:

28 (1) A member who is a law enforcement officer or an eligible former law
29 enforcement officer shall receive a service retirement allowance
30 computed as follows:

31 a. If the member's service retirement date occurs on or after his
32 55th birthday and completion of five years of creditable service
33 as a law enforcement officer, or after the completion of 30 years
34 of creditable service, the allowance shall be equal to one and
35 seventy-eight hundredths percent (1.78%) of his average final
36 compensation, multiplied by the number of years of his
37 creditable service.

38 b. If the member's service retirement date occurs on or after his
39 50th birthday and before his 55th birthday with 15 or more
40 years of creditable service as a law enforcement officer and
41 prior to the completion of 30 years of creditable service, his
42 retirement allowance shall be equal to the greater of:

43 1. The service retirement allowance payable under G.S.
44 128-27(b18)(1)a. reduced by one-third of one percent

(1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;

2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%)

- 1 times the difference between 30 years and his creditable
2 service at retirement; or
3 3. If the member's creditable service commenced prior to
4 July 1, 1995, the service retirement allowance equal to
5 the actuarial equivalent of the allowance payable at the
6 age of 60 years as computed in G.S. 128-27(b18)(2)b.
7 d. Notwithstanding the foregoing provisions, any member whose
8 creditable service commenced prior to July 1, 1965, shall not
9 receive less than the benefit provided by G.S. 128-27(b)."

10 **SECTION 8.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001.
12 – Upon retirement from service in accordance with subsection (a) or (a1) above, on or
13 after July 1, 2001, a member shall receive the following service retirement allowance:

14 (1) A member who is a law enforcement officer or an eligible former law
15 enforcement officer shall receive a service retirement allowance
16 computed as follows:

17 a. If the member's service retirement date occurs on or after his
18 55th birthday and completion of five years of creditable service
19 as a law enforcement officer, or after the completion of 30 years
20 of creditable service, the allowance shall be equal to one and
21 eighty-three hundredths percent (1.83%) of his average final
22 compensation, multiplied by the number of years of his
23 creditable service.

24 b. If the member's service retirement date occurs on or after his
25 50th birthday and before his 55th birthday with 15 or more
26 years of creditable service as a law enforcement officer and
27 prior to the completion of 30 years of creditable service, his
28 retirement allowance shall be equal to the greater of:

29 1. The service retirement allowance payable under G.S.
30 128-27(b19)(1)a. reduced by one-third of one percent
31 (1/3 of 1%) thereof for each month by which his
32 retirement date precedes the first day of the month
33 coincident with or next following the month the member
34 would have attained his 55th birthday;

35 2. The service retirement allowance as computed under
36 G.S. 128-27(b19)(1)a. reduced by five percent (5%)
37 times the difference between 30 years and his creditable
38 service at retirement.

39 (2) A member who is not a law enforcement officer or an eligible former
40 law enforcement officer shall receive a service retirement allowance
41 computed as follows:

42 a. If the member's service retirement date occurs on or after his
43 65th birthday upon the completion of five years of creditable
44 service or after the completion of 30 years of creditable service

1 or on or after his 60th birthday upon the completion of 25 years
2 of creditable service, the allowance shall be equal to one and
3 eighty-three hundredths percent (1.83%) of average final
4 compensation, multiplied by the number of years of creditable
5 service.

6 b. If the member's service retirement date occurs after his 60th
7 birthday and before his 65th birthday and prior to his
8 completion of 25 years or more of creditable service, his
9 retirement allowance shall be computed as in G.S. 128-
10 27(b19)(2)a. but shall be reduced by one-quarter of one percent
11 (1/4 of 1%) thereof for each month by which his retirement date
12 precedes the first day of the month coincident with or next
13 following his 65th birthday.

14 c. If the member's early service retirement date occurs on or after
15 his 50th birthday and before his 60th birthday and after
16 completion of 20 years of creditable service but prior to the
17 completion of 30 years of creditable service, his early service
18 retirement allowance shall be equal to the greater of:

19 1. The service retirement allowance as computed under
20 G.S. 128-27(b19)(2)a. but reduced by the sum of five-
21 twelfths of one percent (5/12 of 1%) thereof for each
22 month by which his retirement date precedes the first day
23 of the month coincident with or next following the
24 month the member would have attained his 60th
25 birthday, plus one-quarter of one percent (1/4 of 1%)
26 thereof for each month by which his 60th birthday
27 precedes the first day of the month coincident with or
28 next following his 65th birthday; or

29 2. The service retirement allowance as computed under
30 G.S. 128-27(b19)(2)a. reduced by five percent (5%)
31 times the difference between 30 years and his creditable
32 service at retirement; or

33 3. If the member's creditable service commenced prior to
34 July 1, 1995, the service retirement allowance equal to
35 the actuarial equivalent of the allowance payable at the
36 age of 60 years as computed in G.S. 128-27(b19)(2)b.

37 d. Notwithstanding the foregoing provisions, any member whose
38 creditable service commenced prior to July 1, 1965, shall not
39 receive less than the benefit provided by G.S. 128-27(b)."

40 **SECTION 9. G.S. 128-27(m) reads as rewritten:**

41 **"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the**
42 **principal beneficiary designated to receive a return of accumulated contributions shall**
43 **have the right to elect to receive in lieu thereof the reduced retirement allowance**
44 **provided by Option two of subsection (g) above computed by assuming that the member**

1 had retired on the first day of the month following the date of his death, provided that all
2 three of the following conditions apply:

- 3 (1) a. The member had attained such age and/or creditable service to
4 be eligible to commence retirement with an early or service
5 retirement allowance, or
6 b. The member had obtained 20 years of creditable service in
7 which case the retirement allowance shall be computed in
8 accordance with ~~G.S. 128-27(b18)(1)b. or G.S. 128-~~
9 ~~27(b18)(2)c.,~~ G.S. 128-27(b19)(1)b. or G.S. 128-27(b19)(2)c.,
10 notwithstanding the requirement of obtaining age 50.
11 (2) The member had designated as the principal beneficiary to receive a
12 return of his accumulated contributions one and only one person who
13 is living at the time of his death.
14 (3) The member had not instructed the Board of Trustees in writing that he
15 did not wish the provisions of this subsection apply.

16 For the purpose of this benefit, a member is considered to be in service at the date of
17 his death if his death occurs within 180 days from the last day of his actual service. The
18 last day of actual service shall be determined as provided in subsection (l) of this
19 section. Upon the death of a member in service, the surviving spouse may make all
20 purchases for creditable service as provided for under this Chapter for which the
21 member had made application in writing prior to the date of death, provided that the
22 date of death occurred prior to or within 60 days after notification of the cost to make
23 the purchase."

24 **SECTION 10.** G.S. 128-27 is amended by adding two new subsections to
25 read:

26 "(zz) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2001. -
27 From and after July 1, 2001, the retirement allowance to or on account of beneficiaries
28 on the retirement rolls as of June 1, 2001, shall be increased by two and eight-tenths of
29 one percent (2.8%) of the allowance payable on June 1, 2001. This allowance shall be
30 calculated on the allowance payable and in effect on June 30, 2001, so as not to be
31 compounded on any other increase payable under subsection (k) of this section or
32 otherwise granted by act of the 2001 General Assembly.

33 (aaa) From and after July 1, 2001, the retirement allowance to or on account of
34 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
35 by three and five-tenths percent (3.5%) of the allowance payable on June 1, 2001, in
36 accordance with subsection (k) of this section. Furthermore, from and after July 1, 2001,
37 the retirement allowance to or on account of beneficiaries whose retirement commenced
38 after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of
39 three and five-tenths percent (3.5%) of the allowance payable as determined by the
40 Board of Trustees based upon the number of months that a retirement allowance was
41 paid between July 1, 2000, and June 30, 2001."

42 **SECTION 11.** This act becomes effective July 1, 2001.



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
House Bill 1255*

H1255-ARO-6 [v.1]

AMENDMENT NO. _____
(to be filled in by
Principal Clerk)

Page 1 of 1

Date _____, 2001

Comm. Sub. [NO]
Amends Title [NO]
First Edition

Representative

- 1 moves to amend the bill on page 5, line 8, by deleting the words "July 1, 2001," and
2 substituting the words "July 1, 2000,".
3

SIGNED _____
Amendment Sponsor

SIGNED _____
Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____



North Carolina General Assembly
Legislative Services Office

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Terrence D. Sullivan, Director
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Raleigh, NC 27603-5925
(919) 733-2578

MEMORANDUM

TO: Mr. Michael Williamson
State Retirement Director
Department of State Treasurer
Raleigh, N. C. 27603-1388

Mr. Mark V. Hartman
Consulting Actuary
668 Link Road
Lexington, N. C. 27295

FROM: Stanley Moore 
Fiscal Research Division

DATE: April 13, 2001

SUBJECT: Actuarial Note Request House Bill 1255

Re: **Teachers' and State Employees' Retirement System** - Increases the accrual rate for active members from 1.81% to 1.83% for each year of service, grants an adjusting increase of 1.1% to retirees as a result of the accrual rate change and provides a post-retirement increase of 3.5% in the benefits of retirees. **Consolidated Judicial Retirement System** - Provides a post-retirement increase of 3.5 % in the benefits of retirees. **Legislative Retirement System** - Provides a post-retirement increase of 3.5% in the benefits of retirees. **Local Governmental Employees' Retirement System** - Increases the accrual rate for active members from 1.78% to 1.83% for each year of service, grants an adjusting increase of 2.8% to retirees as a result of the accrual rate change and provides a post-retirement increase of 3.5% in the benefits of retirees.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, please prepare or have prepared and submit to us an actuarial note on the attached document. Please let us know if you have any questions on this request.

cc: Representative Barefoot
Representative Cox

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

1255

APR 11 01

H

HOUSE DRH3068-LL-16A* (01/25)

HOUSE PRINCIPAL CLERK

Short Title: Increase Retirement Benefits.

(Public)

Sponsors: Representatives Barefoot and Cox.

Referred to:

A BILL TO BE ENTITLED

AN ACT TO ENHANCE THE BENEFITS PAYABLE FROM THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000, 2000, but Before July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member shall receive the following service retirement allowance.

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
- Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance.

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and eighty-three hundredths percent (1.83%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-three hundredths percent (1.83%) of his average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5 is amended by adding two new subsections to read:

1 "(iii) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2001. –
2 From and after July 1, 2001, the retirement allowance to or on account of beneficiaries
3 on the retirement rolls as of June 1, 2001, shall be increased by one and one-tenth
4 percent (1.1%) of the allowance payable on June 1, 2001. This allowance shall be
5 calculated on the allowance payable and in effect on June 30, 2001, so as not to be
6 compounded on any other increase granted by act of the 2001 General Assembly.

7 "(iii) From and after July 1, 2001, the retirement allowance to or on account of
8 beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased
9 by three and five-tenths percent (3.5%) of the allowance payable on June 1, 2001, in
10 accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2001, the retirement
11 allowance to or on account of beneficiaries whose retirement commenced after July 1,
12 2000, but before June 30, 2001, shall be increased by a prorated amount of three and
13 five-tenths percent (3.5%) of the allowance payable as determined by the Board of
14 Trustees based upon the number of months that a retirement allowance was paid
15 between July 1, 2000, and June 30, 2001."

16 **SECTION 4. G.S. 135-5(m) reads as rewritten:**

17 "(m) **Survivor's Alternate Benefit.** – Upon the death of a member in service, the
18 principal beneficiary designated to receive a return of accumulated contributions shall
19 have the right to elect to receive in lieu thereof the reduced retirement allowance
20 provided by Option 2 of subsection (g) above computed by assuming that the member
21 had retired on the first day of the month following the date of his death, provided that
22 the following conditions apply:

- 23 (1) a. The member had attained such age and/or creditable service to
24 be eligible to commence retirement with an early or service
25 retirement allowance, or
26 b. The member had obtained 20 years of creditable service in
27 which case the retirement allowance shall be computed in
28 accordance with ~~G.S. 135-5(b18)(1)b. or G.S. 135-5(b18)(2)c.,~~
29 G.S. 135-5(b19)(1)b. or G.S. 135-5(b19)(2)c., notwithstanding
30 the requirement of obtaining age 50.
31 (2) The member had designated as the principal beneficiary to receive a
32 return of his accumulated contributions one and only one person who
33 was living at the time of his death.
34 (3) The member had not instructed the Board of Trustees in writing that he
35 did not wish the provisions of this subsection to apply.

36 For the purpose of this benefit, a member is considered to be in service at the date of
37 his death if his death occurs within 180 days from the last day of his actual service. The
38 last day of actual service shall be determined as provided in subsection (l) of this
39 section. Upon the death of a member in service, the surviving spouse may make all
40 purchases for creditable service as provided for under this Chapter for which the
41 member had made application in writing prior to the date of death, provided that the
42 date of death occurred prior to or within 60 days after notification of the cost to make
43 the purchase. The term "in service" as used in this subsection includes a member in

1 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
2 Chapter."

3 **SECTION 5.** G.S. 135-65 is amended by adding a new subsection to read:

4 "(v) From and after July 1, 2001, the retirement allowance to or on account of
5 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
6 by three and five-tenths percent (3.5%) of the allowance payable on June 1, 2001.
7 Furthermore, from and after July 1, 2001, the retirement allowance to or on account of
8 beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001,
9 shall be increased by a prorated amount of three and five-tenths percent (3.5%) of the
10 allowance payable as determined by the Board of Trustees based upon the number of
11 months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

12 **SECTION 6.** G.S. 120-4.22A is amended by adding a new subsection to
13 read:

14 "(p) In accordance with subsection (a) of this section, from and after July 1, 2001,
15 the retirement allowance to or on account of beneficiaries whose retirement commenced
16 on or before January 1, 2001, shall be increased by three and five-tenths percent (3.5%)
17 of the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the
18 retirement allowance to or on account of beneficiaries whose retirement commenced
19 after January 1, 2001, but before June 30, 2001, shall be increased by a prorated amount
20 of three and five-tenths percent (3.5%) of the allowance payable as determined by the
21 Board of Trustees based upon the number of months that a retirement allowance was
22 paid between January 1, 2001, and June 30, 2001."

23 **SECTION 7.** G.S. 128-27(b18) reads as rewritten:

24 "(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000.
25 2000, but Before July 1, 2001. – Upon retirement from service in accordance with
26 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
27 shall receive the following service retirement allowance:

28 (1) A member who is a law enforcement officer or an eligible former law
29 enforcement officer shall receive a service retirement allowance
30 computed as follows: .

31 a. If the member's service retirement date occurs on or after his
32 55th birthday and completion of five years of creditable service
33 as a law enforcement officer, or after the completion of 30 years
34 of creditable service, the allowance shall be equal to one and
35 seventy-eight hundredths percent (1.78%) of his average final
36 compensation, multiplied by the number of years of his
37 creditable service.

38 b. If the member's service retirement date occurs on or after his
39 50th birthday and before his 55th birthday with 15 or more
40 years of creditable service as a law enforcement officer and
41 prior to the completion of 30 years of creditable service, his
42 retirement allowance shall be equal to the greater of:

43 1. The service retirement allowance payable under G.S.
44 128-27(b18)(1)a. reduced by one-third of one percent

- (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;
2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%)

- 1 times the difference between 30 years and his creditable
2 service at retirement; or
3 3. If the member's creditable service commenced prior to
4 July 1, 1995, the service retirement allowance equal to
5 the actuarial equivalent of the allowance payable at the
6 age of 60 years as computed in G.S. 128-27(b18)(2)b.
7 d. Notwithstanding the foregoing provisions, any member whose
8 creditable service commenced prior to July 1, 1965, shall not
9 receive less than the benefit provided by G.S. 128-27(b)."

10 **SECTION 8.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001.
12 – Upon retirement from service in accordance with subsection (a) or (a1) above, on or
13 after July 1, 2001, a member shall receive the following service retirement allowance:

14 (1) A member who is a law enforcement officer or an eligible former law
15 enforcement officer shall receive a service retirement allowance
16 computed as follows:

17 a. If the member's service retirement date occurs on or after his
18 55th birthday and completion of five years of creditable service
19 as a law enforcement officer, or after the completion of 30 years
20 of creditable service, the allowance shall be equal to one and
21 eighty-three hundredths percent (1.83%) of his average final
22 compensation, multiplied by the number of years of his
23 creditable service.

24 b. If the member's service retirement date occurs on or after his
25 50th birthday and before his 55th birthday with 15 or more
26 years of creditable service as a law enforcement officer and
27 prior to the completion of 30 years of creditable service, his
28 retirement allowance shall be equal to the greater of:

29 1. The service retirement allowance payable under G.S.
30 128-27(b19)(1)a. reduced by one-third of one percent
31 (1/3 of 1%) thereof for each month by which his
32 retirement date precedes the first day of the month
33 coincident with or next following the month the member
34 would have attained his 55th birthday;

35 2. The service retirement allowance as computed under
36 G.S. 128-27(b19)(1)a. reduced by five percent (5%)
37 times the difference between 30 years and his creditable
38 service at retirement.

39 (2) A member who is not a law enforcement officer or an eligible former
40 law enforcement officer shall receive a service retirement allowance
41 computed as follows:

42 a. If the member's service retirement date occurs on or after his
43 65th birthday upon the completion of five years of creditable
44 service or after the completion of 30 years of creditable service

or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-three hundredths percent (1.83%) of average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b19)(2)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 9. G.S. 128-27(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option two of subsection (g) above computed by assuming that the member

1 had retired on the first day of the month following the date of his death, provided that all
2 three of the following conditions apply:

- 3 (1) a. The member had attained such age and/or creditable service to
4 be eligible to commence retirement with an early or service
5 retirement allowance, or
6 b. The member had obtained 20 years of creditable service in
7 which case the retirement allowance shall be computed in
8 accordance with ~~G.S. 128-27(b18)(1)b. or G.S. 128-~~
9 ~~27(b18)(2)c.,~~ G.S. 128-27(b19)(1)b. or G.S. 128-27(b19)(2)c.,
10 notwithstanding the requirement of obtaining age 50.
11 (2) The member had designated as the principal beneficiary to receive a
12 return of his accumulated contributions one and only one person who
13 is living at the time of his death.
14 (3) The member had not instructed the Board of Trustees in writing that he
15 did not wish the provisions of this subsection apply.

16 For the purpose of this benefit, a member is considered to be in service at the date of
17 his death if his death occurs within 180 days from the last day of his actual service. The
18 last day of actual service shall be determined as provided in subsection (l) of this
19 section. Upon the death of a member in service, the surviving spouse may make all
20 purchases for creditable service as provided for under this Chapter for which the
21 member had made application in writing prior to the date of death, provided that the
22 date of death occurred prior to or within 60 days after notification of the cost to make
23 the purchase."

24 **SECTION 10.** G.S. 128-27 is amended by adding two new subsections to
25 read:

26 "(zz) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2001. -
27 From and after July 1, 2001, the retirement allowance to or on account of beneficiaries
28 on the retirement rolls as of June 1, 2001, shall be increased by two and eight-tenths of
29 one percent (2.8%) of the allowance payable on June 1, 2001. This allowance shall be
30 calculated on the allowance payable and in effect on June 30, 2001, so as not to be
31 compounded on any other increase payable under subsection (k) of this section or
32 otherwise granted by act of the 2001 General Assembly.

33 (aaa) From and after July 1, 2001, the retirement allowance to or on account of
34 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
35 by three and five-tenths percent (3.5%) of the allowance payable on June 1, 2001, in
36 accordance with subsection (k) of this section. Furthermore, from and after July 1, 2001,
37 the retirement allowance to or on account of beneficiaries whose retirement commenced
38 after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of
39 three and five-tenths percent (3.5%) of the allowance payable as determined by the
40 Board of Trustees based upon the number of months that a retirement allowance was
41 paid between July 1, 2000, and June 30, 2001."

42 **SECTION 11.** This act becomes effective July 1, 2001.



STATE OF NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

RICHARD H. MOORE
TREASURER

MICHAEL WILLIAMSON
DEPUTY TREASURER

April 30, 2001

The Honorable Leslie Cox
North Carolina General Assembly
Suite 1220 of the Legislative Building
Raleigh, North Carolina

Re: Actuarial Note/House Bill 1255

Dear Representative Cox:

In accordance with North Carolina General Statute 120-114, we herewith submit a certified copy of an actuarial note on House Bill 1255, which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System.

Please let me know if you have any questions about this actuarial note and if you wish us to appear before any committee of the General Assembly with regard to this bill.

Sincerely yours,

Michael Williamson
Director

/dsp

Enclosure

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 27, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1255

Dear Mr. Williamson:

We have received your letter of April 19 regarding House Bill 1255 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

This proposed legislation appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries of the Teachers' and State Employees' Retirement System equal to 3.5% for those who commenced retirement on and before July 1, 2000, and a prorated portion of the 3.5% post-retirement increase for those who commenced retirement after July 1, 2000 and before June 30, 2001, with all increases payable effective July 1, 2001. The cost of this proposed change is 0.97% of payroll.

This proposed legislation also appears to grant an increase in the defined benefit formula accrual rate, in the Teachers' and State Employees' Retirement System, from 1.81% to 1.83%, effective as of July 1, 2001 with a corresponding adjustment in the monthly allowances of existing retirees equal to 1.1% of the retirement allowances in effect on June 1, 2001, payable effective July 1, 2001. The cost of this proposed change is 0.82% of payroll.

CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

This proposed legislation also appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries of the Consolidated Judicial Retirement System, equal to 3.5% for those who commenced retirement on and before July 1, 2000 and a prorated portion of the 3.5% post-retirement increase for those who commenced retirement after July 1, 2000 and before June 30, 2001, with all increases payable effective July 1, 2001. The cost of this proposed change is 1.39% of payroll.

Mr. Michael L. Williamson
April 27, 2001
Page 2

LOCAL GOVERNMENTAL RETIREMENT SYSTEM


This proposed legislation also appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries of the Local Governmental Employees' Retirement System, equal to 3.5% for those who commenced retirement on and before July 1, 2000 and a prorated portion of the 3.5% post-retirement increase for those who commenced retirement after July 1, 2000 and before June 30, 2001, with all increases payable effective July 1, 2001. The cost of this proposed change is 0.34% of payroll.

This proposed legislation also appears to grant an increase in the defined benefit formula accrual rate, in the Local Governmental Employees' Retirement System, from 1.78% to 1.83%, effective as of July 1, 2001 with a corresponding adjustment in the monthly allowances of existing retirees equal to 2.8% of the retirement allowances in effect on June 1, 2001, payable effective July 1, 2001. The cost of this proposed change is 1.03% of payroll.

As a technical observation, there appears to be an error in Section 3 of the Bill that makes it unclear whether retired members of the Teachers' and State Employees' Retirement System who commenced retirement on or after July 1, 2000 are entitled to the full 3.5% post-retirement increase or only a prorated portion thereof. More specifically, it appears that July 1, 2001 as it appears on line 8 of page 5 of the Bill should be July 1, 2000.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

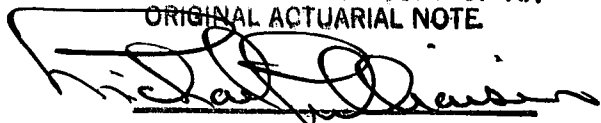
Sincerely,

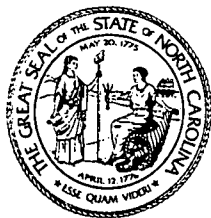

Edward A. Macdonald
Principal and Consulting Actuary

EAM:jg

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387 RET01/169

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE





HOUSE BILL 1255: Increase Retirement Benefits.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 16, 2001
Version: First Edition

Introduced by: Reps. Barefoot and Cox
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 1255 amends the laws governing the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Local Governmental Employees' Retirement System to enhance the benefits payable from those systems. The bill would become effective July 1, 2001.*

BILL ANALYSIS:

Sections 1 through 4 of the bill apply to members and beneficiaries of the Teachers' and State Employees' Retirement System. Section 1 closes the class of members whose service retirement benefit is computed using the accrual rate of 1.81%, as of July 1, 2001.

Section 2 adds a new provision, which sets forth the service retirement allowance for members retiring on or after July 1, 2001. The amendment increases the accrual rate from 1.81% to 1.83% of average final compensation times the member's years of creditable service.

Section 3 adds two new provisions relating to post retirement adjustments. The first provision increases the allowance payable to persons who retired as of June 1, 2001, by 1.1%, on account of the accrual rate increase for active members. The second provision provides a cost of living increase of 3.5% for members who retired on or before July 1, 2000, and a prorated increase for those who retired between July 1, 2000 and June 30, 2001.

Section 4 amends the provision relating to the survivor's alternate benefit to conform to the new formula set forth in Section 2 of the bill.

Section 5 of the bill applies to retirees of the Consolidated Judicial Retirement System and grants a 3.5% cost of living increase to beneficiaries of the System who retired on or before July 1, 2000, and a prorated increase to those who retired between July 1, 2000 and June 30, 2001.

Section 6 provides an identical cost of living increase to beneficiaries of the Legislative Retirement System, except that it is made applicable to those who retired on or before January 1, 2001.

Sections 7 through 10 of the bill apply to members and beneficiaries of the Local Governmental Employees' Retirement System. Section 7 closes the class of members whose benefit is computed using an accrual rate of 1.78%, effective July 1, 2001.

Section 8 establishes a new provision setting forth the service retirement allowance for members who retire on or after July 1, 2001. The accrual rate is increased to 1.83% of the member's average final compensation times the number of years of creditable service.

HOUSE BILL 1255

Page 2

Section 9 amends the provision relating to the survivor's alternate benefit to conform to the changes made in section 8 of the bill.

Section 10 provides two post retirement increases. The first increases the allowance paid to persons who are on the retirement rolls as of June 1, 2001, by 2.8%, to account for the change in the accrual rate for active members. The second change provides a cost of living adjustment of 3.5% to beneficiaries whose retirement commences on or before July 1, 2000, and a prorated increase to those who retired between July 1, 2000 and June 30, 2001.

Section 11 makes the act effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 999

Short Title: Retirement COLA Increases.

(Public)

Sponsors: Representatives Cox, Barefoot; and Buchanan.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE
JUDICIAL RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT
SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5 is amended by adding a new subsection to read:

"(iii) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 2. G.S. 135-65 is amended by adding a new subsection to read:

"(v) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

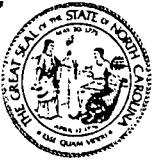
SECTION 3. G.S. 120-4.22A is amended by adding a new subsection to read:

1 "(p) In accordance with subsection (a) of this section, from and after July 1, 2001,
2 the retirement allowance to or on account of beneficiaries whose retirement commenced
3 on or before January 1, 2001, shall be increased by one and six-tenths percent (1.6%) of
4 the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the
5 retirement allowance to or on account of beneficiaries whose retirement commenced
6 after January 1, 2001, but before June 30, 2001, shall be increased by a prorated amount
7 of one and six-tenths percent (1.6%) of the allowance payable as determined by the
8 Board of Trustees based upon the number of months that a retirement allowance was
9 paid between January 1, 2001, and June 30, 2001."

10 **SECTION 4.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(zz) From and after July 1, 2001, the retirement allowance to or on account of
12 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
13 by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in
14 accordance with subsection (k) of this section. Furthermore, from and after July 1, 2001,
15 the retirement allowance to or on account of beneficiaries whose retirement commenced
16 after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of
17 one and six-tenths percent (1.6%) of the allowance payable as determined by the Board
18 of Trustees based upon the number of months that a retirement allowance was paid
19 between July 1, 2000, and June 30, 2001."

20 **SECTION 5.** This act becomes effective July 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

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April 16, 2001

MEMORANDUM

TO: Representatives Barefoot & Cox

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 999

Re: Provides a post-retirement increase of one and six-tenths percent (1.6%) in the benefits of retirees of the Teachers' and State Employees' Retirement System, Consolidated Judicial Retirement System, Legislative Retirement System and Local Governmental Employees' Retirement System.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 10, 2001
- (3) Actuarial Note, Hartman & Associates, April 10, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

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	<u>\$ 9.5M</u>	<u>\$ 10.1M</u>	<u>\$ 10.7M</u>	<u>\$ 11.3M</u>	<u>\$ 12.0M</u>
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	<u>\$ 8.6M</u>	<u>\$ 9.2M</u>	<u>\$ 9.7M</u>	<u>\$10.3M</u>	<u>\$ 10.9M</u>
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.

Legislative Retirement System

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:

Local Governmental Employee's Retirement System

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
<u>Total Local Funds</u>	\$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
<u>Total Local Funds</u>	\$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 prorated. 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:

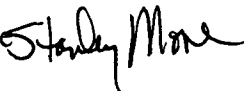
System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY:

Stanley Moore



APPROVED BY:

James D. Johnson



DATE:

April 12, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 10, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 999

Dear Mr. Williamson:

We have received your letter of April 6 regarding House Bill 999 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

This legislation appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries equal to 1.6% for those who commenced retirement on and before July 1, 2000, and a prorated portion of the 1.6% post-retirement increase for those who commenced retirement July 1, 2000 and before June 30, 2001, with all increases payable effective July 1, 2001.

The cost of this legislation as a percentage of payroll is shown in the following table. The increases in the contribution rates are based on 9 year amortization of the additional unfunded accrued liability under the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System. The increase under the Local Governmental Employees' Retirement System is shown as an increase in the normal rate.

System	Increase in Employer Contribution Rate
Teachers' and State Employees'	0.44%
Local Governmental Employees'	0.16
Consolidated Judicial	0.63

Mr. Michael L. Williamson

April 10, 2001

Page 2

As a technical observation, there appears to be an error in Section 1 of the Bill that makes it unclear whether retired members of the Teachers' and State Employees' Retirement System who commenced retirement on or after July 1, 2000 are entitled to the full 1.6% post-retirement increase or only a prorated portion thereof. More specifically, it appears that July 1, 2001 as it appears on line 9 of the Bill should be July 1, 2000.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

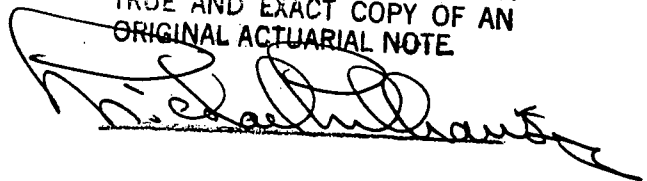


Edward A. Macdonald
Principal and Consulting Actuary

EAM:jg

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 10, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 999: An Act to Provide Cost-of-Living Increases
for Retirees in the TSERS, CJRS, LRS, and LGERS Systems

Dear Mr. Moore:

This bill would amend G.S. 135-5, G.S. 135-65, G.S. 120-4.22A, and G.S. 128-27 to provide a cost-of-living increase for benefits payable to retirees from the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS). The benefit increases provided by this bill are as follows:

1. In the TSERS, CJRS, and LGERS the bill would increase the retirement allowances 1.6% for all beneficiaries who retired on or before July 1, 2000, with a prorated increase for retirements between July 1, 2000 and June 30, 2001.
2. In the LRS, the bill would provide a 1.6% increase in the retirement allowances payable to beneficiaries whose retirement began on or before January 1, 2001, with a prorated increase for retirements after January 1, 2001 and before June 30, 2001.

All provisions of this act are effective July 1, 2001. The estimated costs for the fiscal year beginning July 1, 2001, expressed as a percent of payroll, are shown below.

Mr. Stanley Moore
April 10, 2001

Page 2

<u>System</u>	<u>Cost for Retiree COLA</u>	<u>Amort. Period for Unfunded Liability</u>
TSERS	0.40%	9 years
CJRS	0.55	9 years
LRS	0.80	5 years
LGERS	0.13	n/a

These estimates are based on information contained in the most recent actuarial valuations prepared as of December 31, 1999.

If you have any questions, let me know.

Sincerely,

Mark Hartman

Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



STATE OF NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

RICHARD H. MOORE
TREASURER

MICHAEL WILLIAMSON
DEPUTY TREASURER

April 11, 2001

The Honorable Leslie Cox
North Carolina General Assembly
Suite 1220 of the State Legislative Building
Raleigh, North Carolina

Re: Actuarial Note/House Bill 999

Dear Representative Cox:

In accordance with North Carolina General Statute 120-114, we herewith submit a certified copy of an actuarial note on House Bill 999 which you introduced affecting the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System.

Please let me know if you have any questions about this actuarial note and if you wish us to appear before any committee of the General Assembly with regard to this bill.

Sincerely yours,

Michael Williamson
Director

/dsp

Enclosure

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 10, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 999

Dear Mr. Williamson:

We have received your letter of April 6 regarding House Bill 999 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

This legislation appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries equal to 1.6% for those who commenced retirement on and before July 1, 2000, and a prorated portion of the 1.6% post-retirement increase for those who commenced retirement July 1, 2000 and before June 30, 2001, with all increases payable effective July 1, 2001.

The cost of this legislation as a percentage of payroll is shown in the following table. The increases in the contribution rates are based on 9 year amortization of the additional unfunded accrued liability under the Teachers' and State Employees' Retirement System and the Consolidated Judicial Retirement System. The increase under the Local Governmental Employees' Retirement System is shown as an increase in the normal rate.

System	Increase in Employer Contribution Rate
Teachers' and State Employees'	0.44%
Local Governmental Employees'	0.16
Consolidated Judicial	0.63

Mr. Michael L. Williamson
April 10, 2001
Page 2

As a technical observation, there appears to be an error in Section 1 of the Bill that makes it unclear whether retired members of the Teachers' and State Employees' Retirement System who commenced retirement on or after July 1, 2000 are entitled to the full 1.6% post-retirement increase or only a prorated portion thereof. More specifically, it appears that July 1, 2001 as it appears on line 9 of the Bill should be July 1, 2000.

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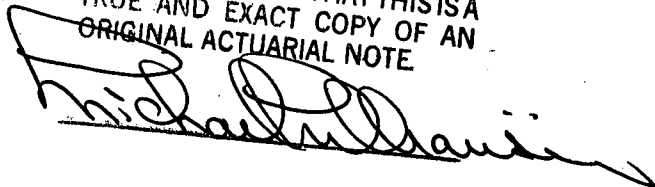
Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



Department of State Treasurer
Retirement Systems Division
Market Value of Pension Fund Assets

Teachers and State Employees Retirement System

Description	December, 1998	December, 1999	December, 2000	January, 2001	February, 2001	March, 2001
Long Term Investment Fund	\$19,217,804,950	\$17,942,780,909	\$19,785,015,737	\$20,026,250,758	\$20,195,252,000	\$20,132,146,373
Equity Investment Fund	21,476,426,076	26,478,552,402	25,075,295,546	26,000,573,752	23,727,174,099	22,153,059,015
Real Estate Investment Fund (1)	537,168,662	644,528,118	799,227,597	799,227,597	799,227,597	799,227,597
Venture Capital Investment Fund (1)	54,211,847	73,612,361	100,029,461	100,029,461	100,029,461	100,029,461
Total Pension Fund Assets	\$41,285,611,535	\$45,139,473,790	\$45,759,568,341	\$46,926,081,568	\$44,821,683,157	\$43,184,462,446

Local Governmental Employees' Retirement System

Long Term Investment Fund	\$4,853,392,087	\$4,580,708,225	\$5,108,309,360	\$5,186,084,589	\$5,234,394,314	\$5,241,365,038
Equity Investment Fund	5,291,196,807	6,562,391,477	6,281,732,702	6,513,528,591	5,962,650,404	5,567,074,517
Real Estate Investment Fund (1)	138,839,450	167,204,069	209,534,324	209,534,324	209,534,324	209,534,324
Venture Capital Investment Fund (1)	12,062,136	18,450,671	25,167,124	25,167,124	25,167,124	25,167,124
Total Pension Fund Assets	\$10,295,490,480	\$11,328,754,442	\$11,624,743,510	\$11,934,314,628	\$11,431,746,166	\$11,043,141,003

Consolidated Judicial Retirement System

Long Term Investment Fund	\$144,111,755	\$134,652,852	\$150,257,515	\$152,545,221	\$152,854,671	\$151,058,230
Equity Investment Fund	158,105,612	194,796,620	186,246,446	193,118,938	175,894,021	164,224,808
Real Estate Investment Fund (1)	4,070,731	4,873,679	6,112,646	6,112,646	6,112,646	6,112,646
Venture Capital Investment Fund (1)	366,115	505,925	687,239	687,239	687,239	687,239
Total Pension Fund Assets	\$306,654,213	\$334,829,076	\$343,303,846	\$352,464,044	\$335,548,577	\$322,082,923

Firemen's and Rescue Squad Worker's Pension Fund

Long Term Investment Fund	\$105,956,079	\$104,489,196	\$113,779,383	\$115,511,702	\$116,586,517	\$116,741,777
Equity Investment Fund	113,721,872	133,676,410	139,903,042	145,065,455	132,797,859	123,987,748
Real Estate Investment Fund (1)	2,257,312	3,404,987	4,479,635	4,479,635	4,479,635	4,479,635
Venture Capital Investment Fund (1)	242,298	309,651	514,141	514,141	514,141	514,141
Total Pension Fund Assets	\$222,177,561	\$241,880,244	\$258,676,201	\$265,570,933	\$254,378,152	\$245,723,301

(1) The Real Estate and Venture Capital Funds are valued on a quarterly basis.
(These valuations are normally completed 45 days after quarter end)

5/16/01 over
start

	Fiscal Year-to-Date As of	MARKET VALUE	Fiscal Year-to-Date Total Return	1 Year ROR at 6/30/00	2 Year ROR at 6/30/00	3 Year ROR at 6/30/00
Long-Term Investment Portfolio	5/11/2001	24,407,672,464	9.53%	4.50%	2.77%	6.56%
Venture Capital Investment Portfolio	3/31/2001	93,350,861	-41.20%	108.26%	62.57%	43.96%
Real Estate Investment Portfolio	3/31/2001	1,029,335,420	9.40%	12.49%	12.71%	14.52%
Equity Investment Portfolio	4/30/2001	31,465,376,091	-11.27%	12.25%	15.92%	19.09%

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

Thursday, May 23, 2001
Room 415 Legislative Office Building
12:00 Noon

**Representative Dan Barefoot, Presiding
Pensions and Retirement Committee**

1 CALL TO ORDER

11. WELCOME

111. INTRODUCTIONS

IV. BILLS CONSIDERED:

HB 1077 FIREFIGHTERS' AND RESCUE SQUAD WORKERS' RETIRE.
Representative Gene Arnold

HB 1078 FIREFIGHTERS' 25-YEAR RETIREMENT
Representative Gene Arnold

HB 1324 AMEND RETIREMENT DEFINITIONS
Representative Joe Hackney

V. COMMENTS

VI. ADJOURN

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT MAY 23, 2001

The House Committee on Pensions and Retirement met on Wednesday, May 23, 2001 at 12:00 p.m. in Room 415 of the Legislative Office Building. Members present were Representatives Barefoot and Cox, Cochairs; and Representatives McCombs, Barbee, Hensley, Rogers, Shubert, Tolson, Wilson, C., Wilson, G., and Yongue. Ex officio member, Representative Hackney, was present. The Visitor Registration Sheet is attached.

Representative Barefoot called the meeting to order and introduced the pages serving the committee; Alex Alston of Wake County, sponsored by Representative Blue, Jason Van Hanswyk of Wake County, sponsored by Representative Capps, and John Francis of Stokes County, sponsored by Representative Hiatt.

House Bill 1078, **Firefighters' 25-year Retirement**, sponsored by Representative Arnold, was the first bill before the committee. He explained that the bill could not be funded at this time but proposed that it be included in the study bill regarding teachers and state employees. Representative Yongue presented a proposed committee substitute and moved for its adoption, motion carried.

Representative Yongue moved for a favorable report as to the committee substitute, unfavorable to original bill, motion carried. Representative Tolson moved for the bill to be re-referred to the Committee on Rules, motion carried.

House Bill 1077, **Firefighters' and Rescue Squad Workers' Retirement**, was before the committee for consideration. Representative Arnold, bill sponsor, was recognized to explain the bill. He explained that the bill adds career firefighters and rescue squad workers to the existing 401K insurance program to which law enforcement officers already belong. The bill would increase from 1.9% to 2.0319% the tax rate to be applied to insurance companies' gross premiums on insurance contracts other than those relating to Workers' Compensation. Stanley Moore, committee staff, explained that the bill would include that the state provide local governments with about \$4 million a year that local governments have been providing for the firefighters and rescue squad workers.

Ellis Hankins, Executive Director of the NC League of Municipalities, spoke in opposition to the bill. He explained that the League did not support preferential retirement benefits for particular classes of municipal employees. Bob Price, with the Jordan Price Law Firm, represented the Association of NC Life Insurance Companies and spoke on the bill saying that rather than paying income tax, insurance companies pay a tax on all the premium income, which ends up being about 10%. He explained that the

bill would increase that tax by about 6.8%. Paul Miller with the Fireman's Association spoke in favor of the bill explaining the benefits that the fire service workers provide for the community including helping the insurance companies that provide fire insurance by protecting property in the event of fires.

Representative Rogers asked what was the purpose of the 1.9% tax rate that was already in place. Stanley Moore explained there is a premium tax that is levied on the fire and lightening portion of insurance policies, and 95% of those funds are dispersed back to the local relief fund in the fire district in which they were generated. Representative McCombs asked Dascheil Propes, with the Department of Insurance, to explain how the bill related to the Department of Insurance. He explained that the 1.9% premium tax includes a regulatory surcharge (currently 7% of the 1.9%) to fund the Department of Insurance. Representative Connie Wilson asked how the tax compares with other states. Dascheil Propes answered that the tax in North Carolina is higher than in 30 other states.

Representative McCombs moved that the bill be re-referred to a sub-committee to for further study. Representative Rogers made a substitute motion to report the bill without prejudice, and for the bill to be re-referred to the Committee on Insurance, motion carried.

House Bill 1324, **Amend Retirement Definitions**, was explained by Representative Hackney, bill sponsor. He explained that the bill would amend the definitions applying to the teachers' and state employees' retirement system and the local governmental employees' retirement system in order to comply with recent United States Department of Labor regulations requiring that certain Visa holders be offered retirement benefits and eligibility for retirement benefits on the same basis as United States citizens.


Betsy Bunting, from the Legal Department of the University of North Carolina General Administration, spoke in favor of the bill explaining that the bill would be necessary in order to comply with the 1998 bill passed by Congress, which allowed employers in the United States to hire non-immigrant aliens provided that they are given benefit options.

Representative Hensley moved to amend the bill on page 1 line 2 and page 3 lines 1 and 18 by deleting the word non-resident and substituting the word non-immigrant, motion carried. Representative Hackney explained that the bill and amendment would not have appreciable fiscal impact and had been reviewed by the Treasurer's office.

Representative McCombs moved that the bill be given a favorable report as amended, motion carried. He then made a procedural motion that the amendment be rolled in to a proposed committee substitute, unfavorable as to original bill, favorable as to proposed committee substitute, motion carried.

Michael Williamson, from the State Treasurer's Office, explained that he would be giving a presentation regarding the Cost-of-Living adjustments at the next meeting of the committee.

The meeting was adjourned at 12:45 p.m.


Representative Barefoot
Presiding Committee Chair


Jackie Pittman
Committee Assistant


Adrian Lovelace
Transcribing Committee Assistant

Attachments:

Committee Meeting Agenda
Visitor Registration Sheet
House Bill 1078
House Bill 1078 Committee Substitute and Actuarial Note
House Bill 1077 and Bill Summary and Actuarial Note
House Bill 1077 Committee Report
House Bill 1324 and Bill Summary, Actuarial Note and Committee Report

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

Thursday, May 23, 2001
Room 415 Legislative Office Building
12:00 Noon

Representative Dan Barefoot, Chairing

1 CALL TO ORDER

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IV. BILLS CONSIDERED:

HB 1077 FIREFIGHTERS' AND RESCUE SQUAD WORKERS' RETIRE.
Representative Gene Arnold

HB 1078 FIREFIGHTERS' 25-YEAR RETIREMENT
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HB 1324 AMEND RETIREMENT DEFINITIONS
Representative Joe Hackney

V. COMMENTS

VI. ADJOURN

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

May 23, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Pete Connet	Town of Smithfield
Don Brookshire	City of Mount Airy
Angie Bone	Bone & Assoc -
Etherine Davis	Electric Cities
Kerry McLean	UNC
Betsy Bunting	UNC
Clifton B. Minter	UNC OP
ELLIS HANKIN	NCLM
Bob Paine	Jordan Paine
Pam Meyer	NCAU
Sherry Ghester	SEANC
W Cherry	Bone & Assoc

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

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FIRM OR AGENCY AND ADDRESS

Benny Scarbro	WSPPFA
Alvin Barlane	Elm City
Robert Paschal	Yandy, Moore
Jim Arnes	City of Concord
Antigone	Moore & Van Allen
JAMES B. PEELE	Williamston Fire Dept.
ANAY R. HOLLIARD	WILLIAMSTON FIRE DEPT.
Dee Freeman	Triangle J COG
JOSEPH SANSON	TREAS DEPT.
DON ROHRBAUGH	TOWN OF GARNER
GRA SINGLETON	TOWN OF GARNER

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

May 23, 2001

Name of Committee

Date

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NAME

FIRM OR AGENCY AND ADDRESS

RODNEY DICKERSON	TOWN OF GARNER
Maureen P. [unclear]	NC DOI
Starla McKinney	4
Marvin Davis	City of Greenville
Mike Munson	DURHAM ACADEMY / CONSTITUENT OF ORANGE CO.
Frank Lewis	OSBPM
Marie Hunter	Dept of State Treasurer / Retirement
David Starling	" "
Gordon A. Joyner	NCA R&EMS
David R. Anderson	PFFMIC
Ardis Watkins	SEANC

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

May 23, 2001.

Name of Committee

Date _____

VISITORS: PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

NAME _____

FIRM OR AGENCY AND ADDRESS

E. C. Dawson

N.C. Rel. Sch. personnel

Lacy Bennett

[Signature]

Nic itane

Sh. McMillan

MF + 5 P.A.

Marshall Bower

Dept of State Treasurer

Michael Williams

1

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1078

Short Title: Firefighters' 25-Year Retirement.

(Public)

Sponsors: Representative Arnold.

Referred to: Pensions and Retirement.

April 11, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW FIREFIGHTERS WHO ARE MEMBERS OF THE LOCAL
GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH
UNREDUCED BENEFITS AFTER COMPLETING TWENTY-FIVE YEARS OF
SERVICE.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-21 is amended by adding a new subdivision to read:

"(17a) "Career firefighter" means a person (i) who is a full-time paid
employee of an employer that participates in the Local Governmental
Employees' Retirement System and maintains a fire department
certified by the Department of Insurance, and (ii) who is actively
serving in a position with assigned primary duties and responsibilities
for the prevention, detection, and suppression of fire."

SECTION 2. G.S. 128-27(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Member Retiring on or After July 1, 2000,
2000, but Before July 1, 2001.— Upon retirement from service in accordance with
subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday and completion of five years of creditable service
as a law enforcement officer, or after the completion of 30 years
of creditable service, the allowance shall be equal to one and
seventy-eight hundredths percent (1.78%) of his average final
compensation, multiplied by the number of years of his
creditable service.

- b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:
1. The service retirement allowance payable under G.S. 128-27(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;
 2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 128-27(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following

the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b18)(2)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 3. G.S. 128-27 is amended by adding a new section to read:

"(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b19)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday;

2. The service retirement allowance as computed under G.S. 128-27(b19)(1)a. reduced by five percent (5%)

- 1 times the difference between 30 years and his creditable
2 service at retirement.
- 3 (2) A member who is a career firefighter or an eligible former career
4 firefighter shall receive a service retirement allowance computed as
5 follows:
- 6 a. If the member's service retirement date occurs on or after his
7 65th birthday upon the completion of five years of creditable
8 service or after the completion of 25 years of creditable service,
9 the allowance shall be equal to one and seventy-eight
10 hundredths percent (1.78%) of average final compensation,
11 multiplied by the number of years of creditable service.
- 12 b. If the member's service retirement date occurs after his 60th
13 birthday and before his 65th birthday and prior to his
14 completion of 25 years or more of creditable service, his
15 retirement allowance shall be computed as in G.S. 128-
16 27(b19)(2)a. but shall be reduced by one-quarter of one percent
17 (1/4 of 1%) thereof for each month by which his retirement date
18 precedes the first day of the month coincident with or next
19 following his 65th birthday.
- 20 c. If the member's early service retirement date occurs on or after
21 his 50th birthday and before his 60th birthday and after
22 completion of 20 years of creditable service but prior to the
23 completion of 25 years of creditable service, his early service
24 retirement allowance shall be equal to the greater of:
- 25 1. The service retirement allowance as computed under
26 G.S. 128-27(b19)(2)a. but reduced by the sum of five-
27 twelfths of one percent (5/12 of 1%) thereof for each
28 month by which his retirement date precedes the first day
29 of the month coincident with or next following the
30 month the member would have attained his 60th
31 birthday, plus one-quarter of one percent (1/4 of 1%)
32 thereof for each month by which his 60th birthday
33 precedes the first day of the month coincident with or
34 next following his 65th birthday; or
- 35 2. The service retirement allowance as computed under
36 G.S. 128-27(b19)(2)a. reduced by five percent (5%)
37 times the difference between 25 years and his creditable
38 service at retirement; or
- 39 3. If the member's creditable service commenced prior to
40 July 1, 1995, the service retirement allowance equal to
41 the actuarial equivalent of the allowance payable at the
42 age of 60 years as computed in G.S. 128-27(b19)(2)b.
- 43 (3) A member who is not a law enforcement officer, an eligible former
44 law enforcement officer, a career firefighter, or an eligible former

1 career firefighter shall receive a service retirement allowance
2 computed as follows:

- 3 a. If the member's service retirement date occurs on or after his
4 65th birthday upon the completion of five years of creditable
5 service or after the completion of 30 years of creditable service
6 or on or after his 60th birthday upon the completion of 25 years
7 of creditable service, the allowance shall be equal to one and
8 seventy-eight hundredths percent (1.78%) of average final
9 compensation, multiplied by the number of years of creditable
10 service.
- 11 b. If the member's service retirement date occurs after his 60th
12 birthday and before his 65th birthday and prior to his
13 completion of 25 years or more of creditable service, his
14 retirement allowance shall be computed as in G.S. 128-
15 27(b19)(2)a. but shall be reduced by one-quarter of one percent
16 (1/4 of 1%) thereof for each month by which his retirement date
17 precedes the first day of the month coincident with or next
18 following his 65th birthday.
- 19 c. If the member's early service retirement date occurs on or after
20 his 50th birthday and before his 60th birthday and after
21 completion of 20 years of creditable service but prior to the
22 completion of 30 years of creditable service, his early service
23 retirement allowance shall be equal to the greater of:
- 24 1. The service retirement allowance as computed under
25 G.S. 128-27(b19)(2)a. but reduced by the sum of five-
26 twelfths of one percent (5/12 of 1%) thereof for each
27 month by which his retirement date precedes the first day
28 of the month coincident with or next following the
29 month the member would have attained his 60th
30 birthday, plus one-quarter of one percent (1/4 of 1%)
31 thereof for each month by which his 60th birthday
32 precedes the first day of the month coincident with or
33 next following his 65th birthday; or
- 34 2. The service retirement allowance as computed under
35 G.S. 128-27(b19)(2)a. reduced by five percent (5%)
36 times the difference between 30 years and his creditable
37 service at retirement; or
- 38 3. If the member's creditable service commenced prior to
39 July 1, 1995, the service retirement allowance equal to
40 the actuarial equivalent of the allowance payable at the
41 age of 60 years as computed in G.S. 128-27(b19)(2)b.
- 42 d. Notwithstanding the foregoing provisions, any member whose
43 creditable service commenced prior to July 1, 1965, shall not
44 receive less than the benefit provided by G.S. 128-27(b)."

1 **SECTION 4.** G.S. 135-5(m) reads as rewritten:

2 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
3 principal beneficiary designated to receive a return of accumulated contributions shall
4 have the right to elect to receive in lieu thereof the reduced retirement allowance
5 provided by Option two of subsection (g) above computed by assuming that the member
6 had retired on the first day of the month following the date of his death, provided that all
7 three of the following conditions apply:

8 (1) a. The member had attained such age and/or creditable service to
9 be eligible to commence retirement with an early or service
10 retirement allowance, or

11 b. The member had obtained 20 years of creditable service in
12 which case the retirement allowance shall be computed in
13 accordance with ~~G.S. 128-27(b18)(1)~~b. G.S. 128-27(b19)(1)b.
14 or ~~G.S. 128-27(b18)(2)c.~~, G.S. 128-27(b19)(2)c.,
15 notwithstanding the requirement of obtaining age 50.

16 (2) The member had designated as the principal beneficiary to receive a
17 return of his accumulated contributions one and only one person who
18 is living at the time of his death.

19 (3) The member had not instructed the Board of Trustees in writing that he
20 did not wish the provisions of this subsection apply.

21 For the purpose of this benefit, a member is considered to be in service at the date of
22 his death if his death occurs within 180 days from the last day of his actual service. The
23 last day of actual service shall be determined as provided in subsection (l) of this
24 section. Upon the death of a member in service, the surviving spouse may make all
25 purchases for creditable service as provided for under this Chapter for which the
26 member had made application in writing prior to the date of death, provided that the
27 date of death occurred prior to or within 60 days after notification of the cost to make
28 the purchase."

29 **SECTION 5.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1078
PROPOSED COMMITTEE SUBSTITUTE H1078-CSRO-20 [v.1]

5/23/2001 8:41:58 AM

Short Title: Study Firefighters' Early Retirement.

(Public)

Sponsors:

Referred to:

April 11, 2001

A BILL TO BE ENTITLED
AN ACT TO ESTABLISH THE LEGISLATIVE STUDY COMMISSION ON EARLY
RETIREMENT FOR CAREER FIREFIGHTERS.

The General Assembly of North Carolina enacts:

SECTION 1.(a) There is established the Legislative Study Commission on Early Retirement for Career Firefighters. The Study Commission shall study the feasibility of providing for a twenty-five-year retirement for members of the Local Governmental Employees' Retirement System (LGERS) who are employed as career firefighters. In conducting the study, the Study Commission shall consider the benefit to employees, the cost, and the number of positions likely to be affected.

SECTION 1.(b) The Study Commission shall consist of 10 members appointed as follows:

(1) Five members appointed by the President Pro Tempore of the Senate, all five shall be members of the Senate at the time of appointment, one individual shall have served within the last two years as a chair, cochair, or vice chair of the Senate Committee on Pensions and Retirement and Aging.

(2) Five members appointed by the Speaker of the House of Representatives, all five shall be members of the House of Representatives at the time of appointment, one individual shall have served within the last two years as a chair, cochair, or vice chair of the House of Representatives Committee on Pensions and Retirement.

SECTION 1.(c) The President Pro Tempore of the Senate and the Speaker of the House of Representatives shall each designate a cochair of the Study Commission from their appointees.

SECTION 1.(d) With the prior approval of the Legislative Services Commission, the Legislative Services Officer shall assign professional staff to assist in the work of the Legislative Study Commission on Early Retirement for Career Firefighters. With the prior approval of the Legislative Services Commission, the Study

1 Commission may hold its meetings in the State Legislative Building or the Legislative
2 Office Building.

3 **SECTION 1.(e)** The Study Commission shall submit a final written report of
4 its findings and recommendations on or before the convening of the 2002 Regular
5 Session of the 2001 General Assembly. All reports shall be filed with the President Pro
6 Tempore of the Senate, the Speaker of the House of Representatives, and the Legislative
7 Librarian. Upon filing its final report, the Study Commission shall terminate.

8 **SECTION 1.(f)** Members of the Study Commission shall be paid per diem,
9 subsistence, and travel allowances at the rate established in G.S. 120-3.1.

10 **SECTION 1.(g)** All State departments and agencies shall cooperate with the
11 Study Commission and, upon request, shall furnish to the Study Commission and its
12 staff any information in their possession or available to them.

13 **SECTION 2.** From funds appropriated to the General Assembly for the
14 2001-2003 fiscal biennium, the Legislative Services Commission shall allocate funds
15 for the expenses of the Legislative Study Commission on Early Retirement of Teachers
16 and State Employees, and Local Government Employees.

17 **SECTION 3.** This act is effective when it becomes law.



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-2578

April 23, 2001

MEMORANDUM

TO: Representative Gene Arnold

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1078

Re: Defines a career firefighter and reduces the service requirement for unreduced retirement benefits for a career firefighter from 30 years of service to 25 years of service regardless of age in the Local Governmental Employees' Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 18, 2001
- (3) Actuarial Note, Hartman & Associates, April 20, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1078

SHORT TITLE: Firefighters' 25-Year Retirement

SPONSOR(S): Representative Arnold

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: Local Government Funds

BILL SUMMARY: Defines a career firefighter and reduces the service requirement for unreduced retirement benefits for a career firefighter from 30 years of service to 25 years of service regardless of age.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: The following cost estimates are based on data of 4,123 firefighters with an annual payroll of \$135,400,000, projected at the average annual increase in compensation base of 6.45% for the Local System over the next five years.

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 4.8% to 5.69% for an increase of 0.89% of the payroll of firefighters. They estimate the unfunded accrued liability will increase by \$27,510,000, which will require additional contributions of \$2,357,000 per year to liquidate this liability over a 15-year period.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost	\$1.2m	\$1.3m	\$1.4m	\$1.5m	\$1.5m
Accrued Liability	<u>\$2.4m</u>	<u>\$2.5m</u>	<u>\$2.6m</u>	<u>\$2.8m</u>	<u>\$3.0m</u>
<u>Total Local Funds</u>	\$3.6m	\$3.8m	\$4.0m	\$4.3m	\$4.5m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 4.80% to 5.90% for an increase of 1.1% of the payroll of firefighters. They estimate the unfunded liability will be liquidated over a 15-year period by applying the rate of 1.8% to the payroll of firefighters.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost	\$1.5m	\$1.6m	\$1.7m	\$1.8m	\$1.9m
Accrued Liability	<u>\$2.4m</u>	<u>\$2.6m</u>	<u>\$2.7m</u>	<u>\$2.9m</u>	<u>\$3.1m</u>
<u>Total Local Funds</u>	\$3.9m	\$4.2m	\$4.4m	\$4.7m	\$5.0m

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, 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 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: James D. Johnson



DATE: April 20, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 18, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1078

Dear Mr. Williamson:

We have received your letter of April 12 regarding House Bill 1078 which affects the Local Governmental Employees' Retirement System.

The legislation appears to define "Career firefighter" as a person (i) who is a full-time paid employee of an employer that participates in the Local Governmental Employees' Retirement System and maintains a fire department certified by the Department of Insurance, and (ii) who is actively serving in a position with the assigned primary duties and responsibilities for the prevention, detection, and suppression of fire. This legislation also appears to provide unreduced service retirement allowances to career firefighters, and eligible former career firefighters, regardless of age after 25 years of creditable service and appears to change the calculation of the reduction for early retirement to 5% times the difference between 25 years and the creditable service at retirement. No minimum service as a career firefighter is included.

We have determined that the employers' normal contribution rate for career firefighters under this legislation would be 5.69% of covered payroll. The increase from the current employer normal rate of 4.80% would be 0.89% in perpetuity, which would require additional annual normal contributions of approximately \$1,205,000 in the first year. The additional unfunded accrued liability created on account of this legislation is \$27,510,000, which would require additional accrued liability contributions of approximately \$2,357,000, based on 15 year amortization of the additional unfunded accrued liability. The combined annual additional normal and accrued liability contributions required by the employer is approximately \$3,562,000. The attached table shows the estimated annual cost of the additional benefits for employers with career firefighters and the increase in the accrued liability rate which would be applied to the payroll of all members of each employer.

It appears that there are numerous technical problems with statutory references contained in this bill. Also as a technical observation, there are no funding provisions included in the bill. In addition, this legislation creates inequities by setting out yet another class of members. Lastly, no definition of an "eligible former career firefighter" is provided thus setting out no minimum requirements such as those contained in G.S. 128-27(a)(5) for former law enforcement officers.


Buck Consultants, Inc.

770 1955-2488 Fax 770 1933-8336

Mr. Michael L. Williamson
April 18, 2001
Page 2

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

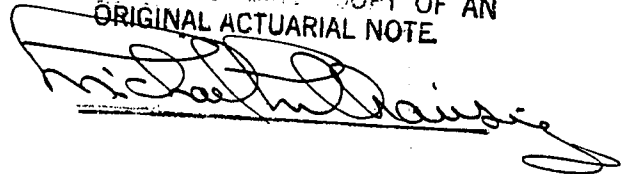


Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq
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Enclosure

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



BUCK
CONSULTANTS

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 20, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1078: An Act to Allow Firefighters in the LGERS to
Retire with Unreduced Benefits After Completing 25 Years of
Service

Dear Mr. Moore:

This bill amends G.S. 128-21 by adding a new subdivision to define a career firefighter as a full-time, paid employee of a certified fire department who is actively serving in a position responsible for the prevention, detection, and suppression of fire. The bill further amends G.S. 128-27 to modify the retirement provisions applicable to career firefighters in the Local Governmental Employees' Retirement System (LGERS).

Currently, members other than law enforcement officers may receive an unreduced retirement allowance upon attainment of age 65 and completion of 5 years of service, attainment of age 60 and completion of 25 years of service, or at any age upon completion of 30 years of service. This bill provides that a career firefighter may retire with an unreduced allowance upon attainment of age 65 and completion of 5 years of service or at any age upon completion of 25 years of service.

This act becomes effective July 1, 2001.

Changing the service requirement for an unreduced retirement allowance would increase both the employer's normal contribution rate and the accrued liability contribution. The estimated cost, expressed as a percentage of the payroll of career firefighters, is an increase in the normal rate of 1.1% of pay and an increase in the accrued liability contribution of 1.8% of pay. This provides amortization of additional unfunded accrued liability of \$28.3 million over a 15 year period.

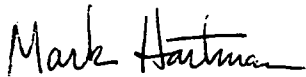
Mr. Stanley Moore
April 20, 2001

Page 2

These estimates are based on the actuarial valuation and experience investigation as of December 31, 1999 and data provided by you regarding 4,156 career firefighters with a total payroll of \$135.4 million.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1077

Short Title: Firefighters' and Rescue Squad Workers' Retire.

(Public)

Sponsors: Representatives Arnold; Baddour and Russell.

Referred to: Pensions and Retirement.

April 11, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO PROVIDE FOR CAREER FIREFIGHTERS' AND RESCUE SQUAD
3 WORKERS' BENEFITS IN THE LOCAL GOVERNMENTAL EMPLOYEES'
4 RETIREMENT SYSTEM.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. Article 12E of Chapter 143 of the General Statutes reads as
7 rewritten:

8 "Article 12E.

9 "Retirement Benefits for Local Governmental Law-Enforcement ~~Officers~~. Officers and
10 Career Firefighters and Rescue Squad Workers.

11 "§ 143-166.50. Retirement benefits for local governmental law-enforcement
12 officers, officers and career firefighters and rescue squad workers.

13 (a) Definitions. – The following words and phrases as used in this Article, unless
14 a different meaning is plainly required by the context, have the following meaning:

15 (1) "Beneficiary" means any person in receipt of a retirement allowance or
16 other benefit from a Retirement System.

17 (1a) "Career firefighter" means a person (i) who is a full-time paid
18 employee of an employer that participates in the Local Governmental
19 Employees' Retirement System and maintains a fire department
20 certified by the North Carolina Department of Insurance, and (ii) who
21 is actively serving in a position with assigned primary duties and
22 responsibilities for the prevention, detection, and suppression of fire.

23 (1b) "Career rescue squad worker" means a person (i) who is a full-time
24 paid employee of an employer that participates in the Local
25 Governmental Employees' Retirement System and maintains a rescue
26 squad or emergency medical services team certified by the North
27 Carolina Department of Insurance, and (ii) who is actively serving in a
28 position with assigned primary duties and responsibilities for the

alleviation of human suffering and assistance to persons who are in difficulty, who are injured, or who become suddenly ill, by providing proper and efficient care or emergency medical services.

(2) "Employer" means a county, city, town or other political subdivision of the State.

(3) "Law-enforcement officer" means a full-time paid employee of an employer, who possesses the power of arrest, who has taken the law enforcement oath administered under the authority of the State as prescribed by G.S. 11-11, and who is certified as a law enforcement officer under the provisions of Chapter 17C of the General Statutes or certified as a deputy sheriff under the provisions of Chapter 17E of the General Statutes. "Law enforcement officer" also means the sheriff of the county. The number of paid personnel employed as law enforcement officers by a law enforcement agency may not exceed the number of law enforcement positions approved by the applicable local governing board.

(4) "Law-Enforcement Officers' Retirement System" means the system provided for under Article 12 of Chapter 143 of the General Statutes, as it existed prior to January 1, 1986.

(5) "Local Governmental Employees' Retirement System" means the Local Governmental Employees' Retirement System of North Carolina provided for under Article 3 of Chapter 128 of the General Statutes.

(6) "Member" means an ~~officer~~ officer, firefighter, or rescue squad worker included in the membership of a retirement system, including former ~~officers~~ officers, firefighters, or rescue squad workers no longer employed who also elected to leave their accumulated contributions on deposit with a Retirement System.

(7) "Officer" means a "law-enforcement officer."

(8) "State" means the State of North Carolina.

(b) Basic Retirement System. – On and after January 1, 1986, law-enforcement officers employed by an employer shall be members of the Local Government Employees' Retirement System, and beneficiaries who were last employed as officers by an employer, or who are surviving beneficiaries of officers last employed by an employer, are beneficiaries of the Local Governmental Employees' Retirement System and paid in benefit amounts then in effect. All members of the Law-Enforcement Officers' Retirement System last employed and paid by an employer are members of the Local Retirement System.

(c) Rights. – Notwithstanding any other provisions of law, any accrued or inchoate rights of a member of the Law-Enforcement Officers' Retirement System as of his transfer to the Local Governmental Employees' Retirement System on January 1, 1986, including the rights to a vested deferred retirement allowance and to commence retirement at certain ages with required years of service as a law-enforcement officer, may in no way be diminished; provided, however, in no event may a member

1 commence retirement and continue membership service with the same Retirement
2 System after January 1, 1986.

3 (d) Court Cost Receipts. – Of the sum derived from the cost of court provided for
4 in G.S. 7A-304(a)(3), the amount designated for this Article, except for the amount
5 designated for the provisions of G.S. 143-166.50(e), shall be paid over to the pension
6 accumulation fund of the Local Governmental Employees' Retirement System and shall
7 offset, to the extent of these receipts, the employers' normal contribution rate required in
8 G.S. 128-30(d)(2) as it pertains to law enforcement officers.

9 (e) Supplemental Retirement Income Plan for Local Governmental
10 Law-Enforcement Officers. – As of January 1, 1986, all law-enforcement officers
11 employed by a local government employer, are participating members of the
12 Supplemental Retirement Income Plan as provided by Article 5 of Chapter 135 of the
13 General Statutes. In addition to the contributions transferred from the Law-Enforcement
14 Officers' Retirement System, participants may make voluntary contributions to the
15 Supplemental Retirement Income Plan to be credited to the designated individual
16 accounts of participants; provided, in no instance shall the total contributions by a
17 participant exceed ten percent (10%) of a participant's compensation within any
18 calendar year. From July 1, 1987, until July 1, 1988, local government employers of law
19 enforcement officers shall contribute an amount equal to at least two percent (2%) of
20 participating local officers' monthly compensation to the Supplemental Retirement
21 Income Plan to be credited to the designated individual accounts of participating local
22 officers; and on and after July 1, 1988, local government employers of law enforcement
23 officers shall contribute an amount equal to five percent (5%) of participating local
24 officers' monthly compensation to the Supplemental Retirement Income Plan to be
25 credited to the designated individual accounts of participating local officers.

26 Additional contributions shall also be made to the individual accounts of all
27 participants in the Plan, except for Sheriffs, on a per capita equal-share basis from the
28 sum of one dollar and twenty-five cents (\$1.25) for each cost of court collected under
29 G.S. 7A-304.

30 (e1) Rights of Participants under the Uniformed Services Employment and
31 Reemployment Rights Act. – A participant whose employment is interrupted by reason
32 of service in the Uniformed Services, as that term is defined in section 4303(16) of the
33 Uniformed Services Employment and Reemployment Rights Act, Public Law 103-353,
34 hereafter referred to as "USERRA", shall be entitled to all rights and benefits that the
35 participant would have been entitled to under this section had the participant's
36 employment not been interrupted, provided that the participant returns to service as a
37 law enforcement officer while the participant's reemployment rights are protected under
38 the provisions of USERRA.

39 (e2) Supplemental Retirement Income Plan for Full-Time Local Career Firefighters
40 and Rescue Squad Workers. – As of January 1, 2002, all career firefighters and career
41 rescue squad workers employed by a local government employer are participating
42 members of the Supplemental Retirement Income Plan as provided by Article 5 of
43 Chapter 135 of the General Statutes. Participants may make voluntary contributions to
44 the Supplemental Retirement Income Plan to be credited to the designated individual

1 accounts of participants; however, in no instance shall the total contributions by a
2 participant exceed ten percent (10%) of a participant's compensation within any
3 calendar year. On and after January 1, 2002, local government employers of career
4 firefighters or career rescue squad workers shall contribute an amount equal to five
5 percent (5%) of participating firefighters' or rescue squad workers' monthly
6 compensation to the Supplemental Retirement Income Plan to be credited to the
7 designated individual accounts of participating firefighters or rescue squad workers."

8 **SECTION 2.** G.S. 128-21 is amended by adding two new subdivisions to
9 read:

10 "(17a) "Career firefighter" means a person (i) who is a full-time paid
11 employee of an employer that participates in the Local Governmental
12 Employees' Retirement System and maintains a fire department
13 certified by the North Carolina Department of Insurance, and (ii) who
14 is actively serving in a position with assigned primary duties and
15 responsibilities for the prevention, detection, and suppression of fire.

16 (17b) "Career rescue squad worker" means a person (i) who is a full-time
17 paid employee of an employer that participates in the Local
18 Governmental Employees' Retirement System and maintains a rescue
19 squad or emergency medical services team certified by the North
20 Carolina Department of Insurance, and (ii) who is actively serving in a
21 position with assigned primary duties and responsibilities for the
22 alleviation of human suffering and assistance to persons who are in
23 difficulty, who are injured, or who become suddenly ill, by providing
24 proper and efficient care or emergency medical services."

25 **SECTION 3.** G.S. 128-24(5) reads as rewritten:

26 **"(5)** The provisions of this subdivision (5) shall apply to any member
27 whose membership is terminated on or after July 1, 1965, and who
28 becomes entitled to benefits hereunder in accordance with the
29 provisions hereof.

30 a. Notwithstanding any other provision of this Chapter, any
31 member who separates from service prior to the attainment of
32 the age of 60 years for any reason other than death or retirement
33 for disability as provided in G.S. 128-27(c), after completing 15
34 or more years of creditable service, and who leaves his total
35 accumulated contributions in said System shall have the right to
36 retire on a deferred retirement allowance upon attaining the age
37 of 60 years; provided that such member may retire only upon
38 written application to the Board of Trustees setting forth at what
39 time, not less than one day nor more than 90 days subsequent to
40 the execution and filing thereof, he desires to be retired; and
41 further provided that in the case of a member who so separates
42 from service on or after July 1, 1967, the aforesaid
43 requirement of 15 or more years of creditable service shall be
44 reduced to 12 or more years of creditable service; and further

provided that in the case of a member who so separates from service on or after July 1, 1971, or whose account is active on July 1, 1971, the aforesated requirement of 12 or more years of creditable service shall be reduced to five or more years of creditable service. Such deferred retirement allowance shall be computed in accordance with the service retirement provisions of this Article pertaining to a member who is not a law enforcement officer or eligible former law enforcement officer.

- b. In lieu of the benefits provided in paragraph a of this subdivision, any member who separates from service prior to the attainment of the age of 60 years, for any reason other than death or retirement for disability as provided in G.S. 128-27(c), after completing 20 or more years of creditable service, and who leaves his total accumulated contributions in said System may elect to retire on an early retirement allowance upon attaining the age of 50 years or at any time thereafter; provided that such member may so retire only upon written application to the Board of Trustees setting forth at what time, not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to be retired. Such early retirement allowance so elected shall be equal to the deferred retirement allowance otherwise payable at the attainment of the age of 60 years reduced by the percentage thereof indicated below.

Age at Retirement	Percentage Reduction
59	7
58	14
57	20
56	25
55	30
54	35
53	39
52	43
51	46
50	50

- b1. In lieu of the benefits provided in paragraphs a and b of this subdivision, any member who is a law enforcement officer, career firefighter, or career rescue squad worker at the time of separation from service prior to the attainment of the age of 50 years, for any reason other than death or disability as provided in this Article, after completing 15 or more years of creditable service in this capacity immediately prior to separation from service, and who leaves his total accumulated contributions in this System, may elect to retire on a deferred

early retirement allowance upon attaining the age of 50 years or at any time thereafter; provided, that the member may commence retirement only upon written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to commence retirement. The deferred early retirement allowance shall be computed in accordance with the service retirement provisions of this Article pertaining to law enforcement ~~officers~~, officers, career firefighters, or career rescue squad workers.

b2. In lieu of the benefits provided in paragraphs a and b of this subdivision, any member who is a law enforcement officer at the time of separation from service prior to the attainment of the age of 55 years, for any reason other than death or disability as provided in this Article, after completing five or more years of creditable service in this capacity immediately prior to separation from service, and who leaves his total accumulated contributions in this System may elect to retire on a deferred service retirement allowance upon attaining the age of 55 years or at any time thereafter; provided, that the member may commence retirement only upon written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to commence retirement. The deferred service retirement allowance shall be computed in accordance with the service retirement provisions of this Article pertaining to law enforcement ~~officers~~, officers, career firefighters, or career rescue squad workers.

b3. Deferred retirement allowance of members retiring on or after July 1, 1995. – In lieu of the benefits provided in paragraphs a. and b. of this subdivision, any member who separates from service prior to attainment of age 60 years, after completing 20 or more years of creditable service, and who leaves his total accumulated contributions in said System, may elect to retire on a deferred retirement allowance upon attaining the age of 50 years or any time thereafter; provided that such member may so retire only upon written application to the Board of Trustees setting forth at what time, not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to be retired. Such deferred retirement allowance shall be computed in accordance with the service retirement provisions of this Article pertaining to a member who is not a

1 law enforcement ~~officer or~~ officer, an eligible former law
2 enforcement ~~officer~~ officer, a career firefighter, an eligible
3 former career firefighter, a career rescue squad worker, or an
4 eligible former career rescue squad worker.

5 c. Should a beneficiary who retired on an early or service
6 retirement allowance be reemployed, or otherwise engaged to
7 perform services, by an employer participating in the
8 Retirement System on a part-time, temporary, interim, or on
9 fee-for-service basis, whether contractual or otherwise, and if
10 such beneficiary earns an amount in any calendar year which
11 exceeds fifty percent (50%) of the reported compensation,
12 excluding terminal payments, during the 12 months of service
13 preceding the effective date of retirement, or twenty thousand
14 dollars (\$20,000), whichever is greater, as hereinafter indexed,
15 then the retirement allowance shall be suspended as of the first
16 day of the month following the month in which the
17 reemployment earnings exceed the amount above, for the
18 balance of the calendar year. The retirement allowance of the
19 beneficiary shall be reinstated as of January 1 of each year
20 following suspension. The amount that may be earned before
21 suspension shall be increased on January 1 of each year by the
22 ratio of the Consumer Price Index to the Index one year earlier,
23 calculated to the nearest tenth of a percent (1/10 of 1%).

24 d. Should a beneficiary who retired on an early or service
25 retirement allowance be restored to service as an employee,
26 then the retirement allowance shall cease as of the first day of
27 the month following the month in which the beneficiary is
28 restored to service and the beneficiary shall become a member
29 of the Retirement System and shall contribute thereafter as
30 allowed by law at the uniform contribution payable by all
31 members.

32 Upon his subsequent retirement, he shall be paid a
33 retirement allowance determined as follows:

- 34 1. For a member who earns at least three years' membership
35 service after restoration to service, the retirement
36 allowance shall be computed on the basis of his
37 compensation and service before and after the period of
38 prior retirement without restriction; provided, that if the
39 prior allowance was based on a social security leveling
40 payment option, the allowance shall be adjusted
41 actuarially for the difference between the amount
42 received under the optional payment and what would
43 have been paid if the retirement allowance had been paid
44 without optional modification.

2. For a member who does not earn three years' membership service after restoration to service, the retirement allowance shall be equal to the sum of the retirement allowance to which he would have been entitled had he not been restored to service, without modification of the election of an optional allowance previously made; and the retirement allowance that results from service earned since being restored to service; provided, that if the prior retirement allowance was based on a social security leveling payment option, the prior allowance shall be adjusted actuarially for the difference between the amount that would have been paid for each month had the payment not been suspended and what would have been paid if the retirement allowance had been paid without optional modification."

SECTION 4. G.S. 128-27(a) reads as rewritten:

"(a) Service Retirement Benefits. –

- (1) Any member may retire upon written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to be retired: Provided, that the said member at the time so specified for his retirement shall have attained the age of 60 years and have at least five years of creditable service or shall have completed 30 years of creditable service, or if a ~~fireman~~, he career firefighter or career rescue squad worker, the member shall have attained the age of 55 years and have at least five years of creditable service.
- (2) Repealed by Session Laws 1983 (Regular Session, 1984), c. 1019, s. 1.
- (3) Repealed by Session Laws 1971, c. 325, s. 12.
- (4) Any member who was in service October 8, 1981, who had attained 60 years of age, may retire upon written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 90 days subsequent to the execution and filing thereof, he desires to be retired.
- (5) Any member who is a law enforcement ~~officer~~, officer, career firefighter, or career rescue squad worker and who attains age 50 and completes 15 or more years of creditable service in this capacity or who attains age 55 and completes five or more years of creditable service in this capacity, may retire upon written application to the Board of Trustees setting forth at what time, as of the first day of a calendar month, not less than one day nor more than 90 days subsequent to the execution and filing thereof, ~~he the member~~ desires to be retired; provided, also, any member who has met the conditions required by this ~~subdivision~~ section but does not retire, and later

becomes an employee other than as a law enforcement officer, officer, career firefighter, or career rescue squad worker continues to have the right to commence retirement."

SECTION 5. G.S. 128-27(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Member Retiring on or After July 1, ~~2000~~2000, but Before January 1, 2002. – Upon retirement from service in accordance with subsection (a) or (a1) above, on or after July 1, 2000, but before January 1, 2002, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday and completion of five years of creditable service as a law enforcement officer, or after the completion of 30 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 30 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 128-27(b18)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or

2. The service retirement allowance as computed under G.S. 128-27(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of creditable service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and seventy-eight hundredths percent (1.78%) of average final compensation, multiplied by the number of years of creditable service.

- 1 b. If the member's service retirement date occurs after his 60th
2 birthday and before his 65th birthday and prior to his
3 completion of 25 years or more of creditable service, his
4 retirement allowance shall be computed as in G.S.
5 128-27(b18)(2)a. but shall be reduced by one-quarter of one
6 percent (1/4 of 1%) thereof for each month by which his
7 retirement date precedes the first day of the month coincident
8 with or next following his 65th birthday.
- 9 c. If the member's early service retirement date occurs on or after
10 his 50th birthday and before his 60th birthday and after
11 completion of 20 years of creditable service but prior to the
12 completion of 30 years of creditable service, his early service
13 retirement allowance shall be equal to the greater of:
- 14 1. The service retirement allowance as computed under
15 G.S. 128-27(b18)(2)a. but reduced by the sum of
16 five-twelfths of one percent (5/12 of 1%) thereof for
17 each month by which his retirement date precedes the
18 first day of the month coincident with or next following
19 the month the member would have attained his 60th
20 birthday, plus one-quarter of one percent (1/4 of 1%)
21 thereof for each month by which his 60th birthday
22 precedes the first day of the month coincident with or
23 next following his 65th birthday; or
- 24 2. The service retirement allowance as computed under
25 G.S. 128-27(b18)(2)a. reduced by five percent (5%)
26 times the difference between 30 years and his creditable
27 service at retirement; or
- 28 3. If the member's creditable service commenced prior to
29 July 1, 1995, the service retirement allowance equal to
30 the actuarial equivalent of the allowance payable at the
31 age of 60 years as computed in G.S. 128-27(b18)(2)b.
- 32 d. Notwithstanding the foregoing provisions, any member whose
33 creditable service commenced prior to July 1, 1965, shall not
34 receive less than the benefit provided by G.S. 128-27(b)."

35 **SECTION 6.** G.S. 128-27 is amended by adding a new subsection to read:

36 "(b19) Service Retirement Allowance of Member Retiring on or After January 1,
37 2002. – Upon retirement from service in accordance with subsection (a) or (a1) above,
38 on or after January 1, 2002, a member shall receive the following service retirement
39 allowance:

- 40 (1) A member who is a law enforcement officer, an eligible former law
41 enforcement officer, a career firefighter, an eligible former career
42 firefighter, a career rescue squad worker, or an eligible former career
43 rescue squad worker shall receive a service retirement allowance
44 computed as follows:

- 1 a. If the member's service retirement date occurs on or after his
2 55th birthday and completion of five years of creditable service
3 as a law enforcement officer, career firefighter, or career rescue
4 squad worker, or after the completion of 30 years of creditable
5 service, the allowance shall be equal to one and seventy-eight
6 hundredths percent (1.78%) of his average final compensation,
7 multiplied by the number of years of his creditable service.
- 8 b. If the member's service retirement date occurs on or after his
9 50th birthday and before his 55th birthday with 15 or more
10 years of creditable service as a law enforcement officer, career
11 firefighter, or career rescue squad worker and prior to the
12 completion of 30 years of creditable service, his retirement
13 allowance shall be equal to the greater of:
- 14 1. The service retirement allowance payable under G.S.
15 128-27(b19)(1)a. reduced by one-third of one percent
16 (1/3 of 1%) thereof for each month by which his
17 retirement date precedes the first day of the month
18 coincident with or next following the month the member
19 would have attained his 55th birthday; or
- 20 2. The service retirement allowance as computed under
21 G.S. 128-27(b19)(1)a. reduced by five percent (5%)
22 times the difference between 30 years and his creditable
23 service at retirement.
- 24 (2) A member who is not a law enforcement officer, an eligible former
25 law enforcement officer, a career firefighter, an eligible former career
26 firefighter, a career rescue worker, or an eligible former career rescue
27 squad worker shall receive a service retirement allowance computed as
28 follows:
- 29 a. If the member's service retirement date occurs on or after his
30 65th birthday upon the completion of five years of creditable
31 service or after the completion of 30 years of creditable service
32 or on or after his 60th birthday upon the completion of 25 years
33 of creditable service, the allowance shall be equal to one and
34 seventy-eight hundredths percent (1.78%) of average final
35 compensation, multiplied by the number of years of creditable
36 service.
- 37 b. If the member's service retirement date occurs after his 60th
38 birthday and before his 65th birthday and prior to his
39 completion of 25 years or more of creditable service, his
40 retirement allowance shall be computed as in G.S. 128-
41 27(b19)(2)a. but shall be reduced by one-quarter of one percent
42 (1/4 of 1%) thereof for each month by which his retirement date
43 precedes the first day of the month coincident with or next
44 following his 65th birthday.

- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 128-27(b19)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1995, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 128-27(b19)(2)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1965, shall not receive less than the benefit provided by G.S. 128-27(b)."

SECTION 7. G.S. 128-27(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option two of subsection (g) above computed by assuming that the member had retired on the first day of the month following the date of his death, provided that all three of the following conditions apply:

- (1) a. The member had attained such age and/or creditable service to be eligible to commence retirement with an early or service retirement allowance, or
- b. The member had obtained 20 years of creditable service in which case the retirement allowance shall be computed in accordance with ~~G.S. 128-27(b18)(1)b. or G.S. 128-27(b18)(2)c.,~~ G.S. 128-27(b19)(1)b. or G.S. 128-27(b19)(2)c., notwithstanding the requirement of obtaining age 50.
- (2) The member had designated as the principal beneficiary to receive a return of his accumulated contributions one and only one person who is living at the time of his death.

(3) The member had not instructed the Board of Trustees in writing that he did not wish the provisions of this subsection apply.

For the purpose of this benefit, a member is considered to be in service at the date of his death if his death occurs within 180 days from the last day of his actual service. The last day of actual service shall be determined as provided in subsection (1) of this section. Upon the death of a member in service, the surviving spouse may make all purchases for creditable service as provided for under this Chapter for which the member had made application in writing prior to the date of death, provided that the date of death occurred prior to or within 60 days after notification of the cost to make the purchase."

SECTION 8. G.S. 105-228.5(d)(2) reads as rewritten:

"(2) Other Insurance Contracts. - The tax rate to be applied to gross premiums on all other insurance contracts issued by insurers shall be ~~one and nine tenths percent (1.9%).~~ two and three hundred nineteen ten-thousandths percent (2.0319%). The net proceeds shall be credited to the General Fund."

SECTION 9. There is appropriated from the General Fund to the Local Governmental Employees' Retirement System the sum of six million five hundred thousand dollars (\$6,500,000) for the 2001-2002 fiscal year and the sum of thirteen million dollars (\$13,000,000) for the 2002-2003 fiscal year to implement the provisions of this act.

SECTION 10. Section 8 of this act is effective for taxable years beginning on or after January 1, 2001. Section 9 of this act becomes effective July 1, 2001. The remainder of this act becomes effective January 1, 2002, but shall not affect the rights of a person who is a vested member of the Local Governmental Employees' Retirement System on that date to any disability benefits for which that person is otherwise eligible on that date.



HOUSE BILL 1077: Firefighters' and Rescue Squad Workers' Retire.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 23, 2001
Version: First Edition

Introduced by: Rep. Arnold
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

House Bill 1077 amends the law to provide retirement benefits from the Supplemental Retirement Income Plan (401K Plan) to all eligible career firefighters and career rescue squad workers. The bill also provides that career firefighters and career rescue squad workers who are members of the Local Governmental Employees' Retirement System will be eligible for the same deferred, early, and service retirement benefits as are now available to law enforcement officers. It further raises the gross premiums tax rate on insurance contracts from 1.9% to 2.0319%, and makes an appropriation from the General Fund to the Local Governmental Employees' Retirement System for fiscal years 201-2002 and 2002-2003.

CURRENT LAW:

Under current law, all local law enforcement officers are participating members of the Supplemental Retirement Income Plan for Local Governmental Law Enforcement Officers. Local government employers contribute five percent of each officer's monthly compensation to the individual account of the member. Some local governments currently provide this benefit to all employees; however, the law only requires it for law enforcement officers.

The service retirement provisions of the Local Governmental Employees' Retirement System allow law enforcement officers to retire with full benefits at age 55 with five years of service or at any age with 30 years. Other members may retire at age 65 with five years or at any age with 30 years. The Local System is funded, in part, by each participating local employer. Each employer's contribution rate is determined when it elects to enter the System.

BILL ANALYSIS:

This bill amends the law to give all career firefighters and career rescue squad workers the same benefit in the Supplemental Retirement Income Plan as is currently available to law enforcement officers. In addition, the bill also amends several provisions in the Local Governmental Employees' Retirement System to provide the same deferred, early and service retirement benefits as are now available to law enforcement officers to career firefighters and career rescue squad workers.

The bill also amends the tax law to increase the tax rate for gross premiums on certain insurance contracts from 1.9% to 2.0319%. It also authorizes and appropriation of \$6,500,000 for fiscal year 2001-2002, and \$13,000,000 for fiscal year 2002-2003 to implement the provisions of the act. The appropriation will help to offset the additional cost to local government employers imposed by this act.

HOUSE BILL 1077

Page 2

EFFECTIVE DATE:

The tax increase would become effective for taxable years beginning on or after January 1, 2001. The appropriation would become effective July 1, 2001. The remainder of the act would become effective January 1, 2002, but would not affect the rights of members vested in the Local Governmental Employees' Retirement System to any disability benefits for which the person might otherwise be eligible.



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April 25, 2001

MEMORANDUM

TO: Representative Gene Arnold

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1077

Re: Defines a "Career Firefighter" and "Career Rescue Squad Worker" in the Local Governmental Employees' Retirement System and provides for unreduced retirement at age 55 with 5 years of service or any age with 30 years of service. Reduced benefits are available at age 50 with 15 years. Also requires the local employer to pay 5% of salary of each firefighter into the Supplemental Retirement Plan [401(k) Plan]

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 20, 2001
- (3) Actuarial Note, Hartman & Associates, April 20, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1077

SHORT TITLE: Firefighters' and Rescue Squad Workers' Retirement

SPONSOR(S): Representative Arnold

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Funds and Local Government Funds

BILL SUMMARY: Defines "Career Firefighter" and "Career Rescue Squad Workers" in the Local Governmental Employees' Retirement System and provides for unreduced retirement at age 55 with 5 years of service or any age with 30 years of service. Reduced benefits are available at age 50 with 15 years. Also requires the local employer to pay 5% of salary of each firefighter into the Supplemental Retirement Plan [401(k) Plan].

The bill increases the rate of premium tax on other insurance contracts from 1.9% to 2.0319% and this tax is credited to the General Fund. There is General Fund appropriation to the Local Governmental Employees' Retirement System of \$6.5 million for 2001-02 and \$13 million for 2002-03 to offset the additional cost to local government unit for the increased benefits.

EFFECTIVE DATE: The increased premium tax is effective January 1, 2001. Retirement benefit changes are effective January 1, 2002.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: The following cost estimates are based on data of 6,801 firefighters and rescue squad workers with an estimated annual payroll of \$218,375,000 projected at the average annual increase in compensation base of 6.45% for the Local System over the next five years.

Presently there is an estimated 112 local units that make voluntary contributions to the 401(k) Plan amounting to \$4,011,000 for 3,272 firefighters and rescue squad workers.

Local Governmental Employee's Retirement System

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 4.8% to 5.32% for an increase of 0.52% of the payroll of firefighters and rescue squad workers. They estimate the unfunded accrued liability will increase by \$10,158,000, which will require additional contributions of \$879,000 per year to liquidate this liability over a 15-year period.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost	\$0.6m	\$1.2m	\$1.3m	\$1.4m	\$1.5m
Accrued Liability	<u>\$0.4m</u>	<u>\$0.9m</u>	<u>\$1.0m</u>	<u>\$1.1m</u>	<u>\$1.1m</u>
Retirement Cost	\$1.0m	\$2.1m	\$2.3m	\$2.5m	\$2.6m
401(k) Contributions	<u>\$5.5m</u>	<u>\$11.6m</u>	<u>\$12.4m</u>	<u>\$13.2m</u>	<u>\$14.0m</u>
Total Cost	\$6.5m	\$13.7m	\$14.7m	\$15.6m	\$16.6m

General Assembly Actuary: Hartman & Associates estimates the normal cost will increase from 4.80% to 5.48% for an increase of 0.68% of the payroll of firefighters and rescue squad workers. They estimate the unfunded liability will be liquidated over a 15-year period by applying the rate of 0.69% to the payroll of firefighters and rescue squad workers.

	2001-02	2002-03	2003-04	2004-05	2005-06
Normal Cost	\$0.7m	\$1.6m	\$1.7m	\$1.8m	\$1.9m
Accrued Liability	<u>\$0.8m</u>	<u>\$1.6m</u>	<u>\$1.7m</u>	<u>\$1.8m</u>	<u>\$1.9m</u>
<u>Retirement Cost</u>	\$1.5m	\$3.2m	\$3.4m	\$3.6m	\$3.8m
401(k) Contributions	<u>\$5.5m</u>	<u>\$11.6m</u>	<u>\$12.4m</u>	<u>\$13.2m</u>	<u>\$14.0m</u>
Total Cost	\$7.0m	\$14.8m	\$15.8m	\$16.8m	\$17.8m

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, 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:

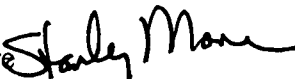
System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 733-4910 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:

James D. Johnson



DATE:

April 24, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 20, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1077

Dear Mr. Williamson:

We have received your letter of April 16 regarding House Bill 1077 which affects the Local Governmental Employees' Retirement System and the Supplemental Retirement Income Plan.

The proposed legislation appears to create definitions for a "career firefighter" and a "career rescue squad worker" under both the provisions governing the Local Governmental Employees' Retirement System and Article 12E of Chapter 143. This proposed legislation appears to provide career firefighters and rescue squad workers with the same retirement structure as law enforcement officers, except that no court cost receipts provided for in G.S. 143-166.50(d) and (e) are to be paid either to the Retirement System or to individual 401(k) accounts on behalf of career firefighters or rescue squad workers. Nor will career firefighters or rescue squad workers be entitled to the Special Separation Allowance under the provisions of G.S. 143-166.42.

This legislation appears to require, on and after January 1, 2002, local governmental employers to contribute 5% of participating firefighters' or rescue squad workers' monthly compensation to the Supplemental Retirement Income Plan to be credited to the individual accounts of those firefighters or rescue squad workers. This legislation further appears to provide career firefighters, eligible former career firefighters, career rescue squad workers and eligible former career rescue squad workers unreduced service retirement allowances at age 55 with five years of creditable service as a career firefighter or rescue squad worker or after the completion of 30 years of creditable service regardless of age and reduced retirement allowances at age 50 with 15 or more years of creditable service as a career firefighter or rescue squad worker. The reduction is the lesser of 1/3 of 1% for each month by which the retirement date precedes the first day of the month coincident with or next following the 55th birthday or 5% times the difference between 30 years and the creditable service at retirement.

The estimated cost for the contribution to the Supplemental Retirement Income Plan is \$10,919,000 in the first year.

Under the Local Governmental Employees' Retirement System, we have determined that the employers' normal contribution rate under this legislation for career firefighters and rescue squad worker members would be 5.32% of covered payroll. The increase from the current employer normal rate of 4.80% would be 0.52%, which would require additional annual normal contributions in perpetuity of approximately \$1,136,000. The additional unfunded accrued liability created on account of this legislation is

Mr. Michael L. Williamson
April 20, 2001
Page 2

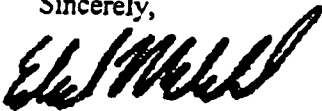
\$10,158,000, which would require additional accrued liability contributions of approximately \$879,000 based on 15-year amortization of the additional unfunded accrued liability. The combined annual additional normal and accrued liability contributions required by the employer are approximately \$2,015,000. The attached table shows the estimated annual cost of the additional benefits for employers with career firefighters and rescue squad workers and the increase in the accrued liability rate which would be applied to the payroll of all members of each employer.

Lastly, Section 9 of the Bill appears to appropriate from the General Fund (to the Local Governmental Employees' Retirement System) \$6,500,000 for the 2001-2002 fiscal year and \$13,000,000 for the 2002-2003 fiscal year to implement these provisions. Due to these appropriations, there would be no cost to the participating local employers until the 2003-2004 fiscal year. However, since the appropriations would be made to the Retirement System, there would be an administrative burden and expense that will be imposed upon the System due to additional and separate monthly reporting requirements for retirement purposes and the coordination with or the transfer of funds to the Supplemental Retirement Income Plan to cover the employer's 5% contribution.

As a technical observation, Section 4 of the Bill is unclear as to whether a career firefighter or rescue squad worker must have five years of creditable service in that capacity to be eligible for benefits at age 55.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



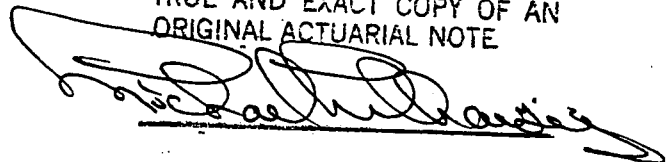
Edward A. Macdonald
Principal and Consulting Actuary

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JC 731 RET03 013

Enclosure

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



BUCK
CONSULTANTS

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 20, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1077: An Act to Provide for Career Firefighters'
and Rescue Squad Workers' Benefits in the LGERS

Dear Mr. Moore:

This bill modifies the retirement provisions applicable to career firefighters and rescue squad workers in the Local Governmental Employees' Retirement System (LGERS). Two definitions are added to G.S. 128-21. A career firefighter is defined as a full-time, paid employee of a certified fire department who is actively serving in a position responsible for the prevention, detection, and suppression of fire. A career rescue squad worker is defined as a full-time, paid employee of an employer who maintains a certified rescue squad or emergency medical services team and who is actively serving in a position responsible for alleviation of human suffering and assistance to persons injured or ill.

The bill amends G.S. 128-27 to modify the service retirement allowance payable to career firefighters and rescue squad workers. Currently, these members may receive an unreduced retirement allowance upon attainment of age 65 and completion of 5 years of service, attainment of age 60 and completion of 25 years of service, or at any age upon completion of 30 years of service. This act provides that these members may retire with an unreduced allowance upon attainment of age 55 and completion of 5 years of service or at any age with 30 years of service. The early retirement reduction factors are also modified.

This bill further amends G.S. 143-166.50 by adding the definitions for career firefighter and rescue squad worker and including these employees in the Supplemental Retirement Income Plan. This would allow the member to contribute up to 10% of his compensation to the Plan and require his employer to contribute 5% of his compensation.

Mr. Stanley Moore
April 20, 2001

Page 2

These provisions of this act become effective January 1, 2002.


Changing the service requirement for an unreduced retirement allowance would increase both the employer's normal contribution rate and the accrued liability contribution. The estimated cost, expressed as a percentage of the payroll of career firefighters and rescue squad workers, is an increase in the normal rate of 0.68% of pay and an increase in the accrued liability contribution of 0.69% of pay. This provides amortization of additional unfunded accrued liability of \$15.1 million over a 15 year period.

Including career firefighters and rescue squad workers in the Supplemental Retirement Income Plan would produce a cost of 5% of their payroll.

These estimates are based on the actuarial valuation and experience investigation as of December 31, 1999 and data provided by you regarding 6,801 career firefighters and rescue squad workers with a total payroll of \$218.4 million.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☐ Committee Substitute for

H.B. 1077 A BILL TO BE ENTITLED AN ACT TO PROVIDE FOR CAREER
FIREFIGHTERS' AND RESCUE SQUAD WORKERS' BENEFITS IN THE LOCAL
GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM.

☐ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title,
unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation
that the committee substitute bill #) be re-referred to the Committee on .)

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☒ Without prejudice, and be re-referred to the Committee on INSURANCE.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1324

Short Title: Amend Retirement Definitions.

(Public)

Sponsors: Representative Hackney.

Referred to: Pensions and Retirement.

April 12, 2001

A BILL TO BE ENTITLED

AN ACT TO AMEND DEFINITIONS APPLYING TO THE TEACHERS' AND
STATE EMPLOYEES' RETIREMENT SYSTEM AND THE LOCAL
GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM IN ORDER TO
COMPLY WITH RECENT UNITED STATES DEPARTMENT OF LABOR
REGULATIONS REQUIRING THAT CERTAIN VISA HOLDERS BE OFFERED
RETIREMENT BENEFITS AND ELIGIBILITY FOR RETIREMENT BENEFITS
ON THE SAME BASIS AS UNITED STATES CITIZENS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-21(10) reads as rewritten:

"(10) "Employee" shall mean any person who is regularly employed in the service of and whose salary or compensation is paid by the employer as defined in subdivision (11) of this section, whether employed or appointed for stated terms or otherwise, except teachers in the public schools and except such employees who hold office by popular election as are not required to devote a major portion of their time to the duties of their office. "Employee" also means all full-time, paid firemen who are employed by any fire department that serves a city or county or any part of a city or county and that is supported in whole or in part by municipal or county funds. In all cases of doubt the Board of Trustees shall decide who is an employee. On and after August 1, 2001, a person who is a nonresident alien and who otherwise meets the requirements of this subdivision shall not be excluded from the definition of "employee" solely because the person holds a temporary or time-limited visa."

SECTION 2. G.S. 135-1(10) reads as rewritten:

"(10) "Employee" shall mean all full-time employees, agents or officers of the State of North Carolina or any of its departments, bureaus and

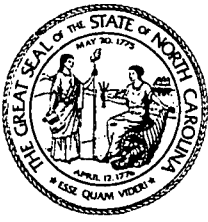
1 institutions other than educational, whether such employees are
2 elected, appointed or employed: Provided that the term "employee"
3 shall not include any person who is a member of the Consolidated
4 Judicial Retirement System, any member of the General Assembly or
5 any part-time or temporary employee. Notwithstanding any other
6 provision of law, "employee" shall include all employees of the
7 General Assembly except participants in the Legislative Intern
8 Program, pages, and reemployed beneficiaries in receipt of a monthly
9 retirement allowance under this Chapter. In all cases of doubt, the
10 Board of Trustees shall determine whether any person is an employee
11 as defined in this Chapter. "Employee" shall also mean every full-time
12 civilian employee of the army national guard and air national guard of
13 this State who is employed pursuant to section 709 of Title 32 of the
14 United States Code and paid from federal appropriated funds, but held
15 by the federal authorities not to be a federal employee: Provided,
16 however, that the authority or agency paying the salaries of such
17 employees shall deduct or cause to be deducted from each employee's
18 salary the employee's contribution in accordance with applicable
19 provisions of G.S. 135-8 and remit the same, either directly or
20 indirectly, to the Retirement System; coverage of employees described
21 in this sentence shall commence upon the first day of the calendar year
22 or fiscal year, whichever is earlier, next following the date of
23 execution of an agreement between the Secretary of Defense of the
24 United States and the Adjutant General of the State acting for the
25 Governor in behalf of the State, but no credit shall be allowed pursuant
26 to this sentence for any service previously rendered in the
27 above-described capacity as a civilian employee of the national guard:
28 Provided, further, that the Adjutant General, in his discretion, may
29 terminate the Retirement System coverage of the above-described
30 national guard employees if a federal retirement system is established
31 for such employees and the Adjutant General elects to secure coverage
32 of such employees under such federal retirement system. Any full-time
33 civilian employee of the national guard described above who is now or
34 hereafter may become a member of the Retirement System may secure
35 Retirement System credit for such service as a national guard civilian
36 employee for the period preceding the time when such employees
37 became eligible for Retirement System coverage by paying to the
38 Retirement System an amount equal to that which would have
39 constituted employee contributions if he had been a member during the
40 years of ineligibility, plus interest. Employees of State agencies,
41 departments, institutions, boards, and commissions who are employed
42 in permanent job positions on a recurring basis and who work 30 or
43 more hours per week for nine or more months per calendar year are
44 covered by the provisions of this subdivision. On and after August 1,

1 2001, a person who is a nonresident alien and who otherwise meets the
2 requirements of this subdivision shall not be excluded from the
3 definition of "employee" solely because the person holds a temporary
4 or time-limited visa."

5 **SECTION 3.** G.S. 135-1(25) reads as rewritten:

6 "(25) "Teacher" shall mean any teacher, helping teacher, librarian, principal,
7 supervisor, superintendent of public schools or any full-time
8 employee, city or county, superintendent of public instruction, or any
9 full-time employee of Department of Public Instruction, president,
10 dean or teacher, or any full-time employee in any educational
11 institution supported by and under the control of the State: Provided,
12 that the term "teacher" shall not include any part-time, temporary, or
13 substitute teacher or employee, and shall not include those
14 participating in an optional retirement program provided for in G.S.
15 135-5.1. In all cases of doubt, the Board of Trustees, hereinafter
16 [hereinbefore] defined, shall determine whether any person is a teacher
17 as defined in this Chapter. On and after August 1, 2001, a person who
18 is a nonresident alien and who otherwise meets the requirements of
19 this subdivision shall not be excluded from the definition of "teacher"
20 solely because the person holds a temporary or time-limited visa."

21 **SECTION 4.** This act becomes effective August 1, 2001.



HOUSE BILL 1324: Amend Retirement Definitions.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 23, 2001
Version: First Edition

Introduced by: Rep. Hackney
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

House Bill 1324 amends the definitions of the terms "Employee" and "Teacher" in the Teachers' and State Employees' Retirement System, and the term "Employee" in the Local Governmental Employees' Retirement System to include nonresident aliens who hold temporary visas as members of the Retirement System. This change would become effective August 1, 2001.

CURRENT LAW:

Currently nonresident aliens and persons who hold temporary or time-limited visas are not considered eligible for membership in the Retirement Systems because their employment is deemed temporary. The Retirement System has indicated that this change in the law is necessary to comply with a recent United States Department of Labor regulation relating to visa holders.

BILL ANALYSIS:

This bill changes the definition of the terms "employee" and "teacher" to include nonresident aliens who are employed by a participating employer on or after August 1, 2001, if the person otherwise meets the definition of an employee or a teacher. This will allow nonresident aliens to become members of the Retirement System if they are employed in a permanent full-time position on the same basis as currently applies to citizens of the United States.

This act would become effective August 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

Goldman, Director
Administrative Division
Room 9, Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

April 25, 2001

MEMORANDUM

TO: Representative Joe Hackney

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1324

Re: Amend the definition in the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System to comply with United State Department of Labor regulations relating to visa holders.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, April 24, 2001
- (3) Actuarial Note, Hartman & Associates, April 20, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1324

SHORT TITLE: Amend Retirement Definitions

SPONSOR(S): Representative Hackney

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System and Local Governmental Employees' Retirement System

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

BILL SUMMARY: Amends the definition of "Employee" and "Teacher" in the Teachers' and State Employees' Retirement System and the definition of "Employee" in the Local Governmental Employees' Retirement System. This will include nonresident aliens who hold temporary visas as members of the Systems if they are employed in a position that meets the requirement of membership. This is to comply with United State Department of Labor regulations relating to visa holders.

EFFECTIVE DATE: August 1, 2001

ESTIMATED IMPACT ON STATE: Buck Consultants and Hartman & Associates both agree that the employee and employer contributions should be adequate if these additional employees, who hold temporary visas, were to be members of the Systems.

ASSUMPTIONS AND METHODOLOGY: Teacher's & State Employees' Retirement System

The cost estimates of the System's Actuary, if any, 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.

Local Governmental Employees' Retirement System The cost estimates of the System's Actuary, if any, 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 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

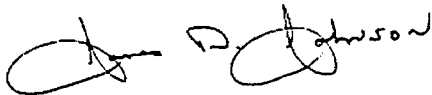
PREPARED BY:

Stanley Moore



APPROVED BY:

James D. Johnson



DATE:

April 25, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1200
Atlanta, Georgia 30339-5945

April 24, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

House Bill 1324

Dear Mr. Williamson:

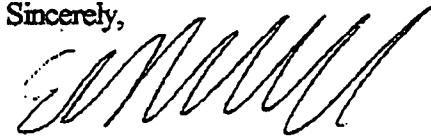
We have received your letter of April 16 regarding House Bill 1324 which affects the Teachers' and State Employees' Retirement System.

This legislation appears to amend the definitions of teacher and employee, effective August 1, 2001, to include nonresident aliens who hold temporary or time-limited visas and who otherwise meet the definition of employee or teacher. Thus, this Bill mandates membership in the Retirement Systems for nonresident aliens employed in eligible positions and is required to comply with recent Department of Labor regulations requiring employers of H-1b visa holders to offer them retirement benefits and eligibility for retirement benefits on the same basis as United States citizens.

There would be no increase in the employer contribution rates on account of this legislation. The cost to the State would be equal to the current employer contribution rates applied to the payroll of the affected members.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq

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03/27/0001 RET

Buck Consultants, Inc.

770 955-2488 Fax 770 933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

April 20, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1324: An Act to Amend the TSERS and LGERS to
Comply with DOL Rules Requiring Certain Visa Holders be
Eligible for Retirement Benefits

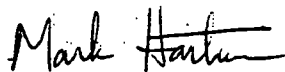
Dear Mr. Moore:

This bill amends the definition of employee in G.S. 128-21(10) and in G.S. 135-1(10) and amends the definition of teacher in G.S. 135-1(25). The amended definitions state that on and after August 1, 2001, a nonresident alien who otherwise meets the requirements for membership shall not be excluded solely because that person holds a temporary or time-limited visa. This would allow these employees to become participants in the Local Governmental Employees' Retirement System (LGERS) or the Teachers' and State Employees' Retirement System (TSERS). This act becomes effective August 1, 2001.

Addition of these employees is not expected to noticeably alter the demographics of the LGERS or TSERS. Thus, it is expected that the current employer and employee contribution rates will be sufficient to provide benefits for these additional members, so the cost of this bill would be the employer normal contribution rate applied to the payroll of these employees.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☐ Committee Substitute for

H.B. 1324 A BILL TO BE ENTITLED AN ACT TO AMEND DEFINITIONS APPLYING TO THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM IN ORDER TO COMPLY WITH RECENT UNITED STATES DEPARTMENT OF LABOR REGULATIONS REQUIRING THAT CERTAIN VISA HOLDERS BE OFFERED RETIREMENT BENEFITS AND ELIGIBILITY FOR RETIREMENT BENEFITS ON THE SAME BASIS AS UNITED STATES CITIZENS.

☐ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☒ With a favorable report as to committee substitute bill (~~##~~), ☐ which changes the title, unfavorable as to (original bill), (~~Committee Substitute Bill #~~), (and recommendation that the committee substitute bill # ~~be re-referred to the Committee on~~).

☐ With a favorable report as to House committee substitute bill (# ☐), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

MINUTES
HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT

May 30, 2001

The House Committee on Pensions and Retirement met on Wednesday, May 30, 2001, in Room 415 of the Legislative Office Building at 12 Noon. The following members were present: Chairman Dan Barefoot; Chairman Leslie Cox; Vice-Chairman Gene McCombs; Representatives Barbee, Rogers, Shubert, Starnes, Tolson, Connie Wilson, Gene Wilson, and Yongue. Karen Cochrane-Brown, Research Division, was also in attendance. A Visitor Registration list is attached and made part of these minutes.

Chairman Cox called the meeting to order. He recognized Representative Wayne Goodwin to explain HB1022 – A BILL TO BE ENTITLED AN ACT TO ALLOW MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED BENEFITS AFTER TWENTY-EIGHT YEARS OF SERVICE AND TO ESTABLISH A RETENTION INCENTIVE PROGRAM FOR MEMBERS OF THE RETIREMENT SYSTEM. A copy of the bill, actuarial note, and a handout from The State Employees Association of North Carolina, Inc., (given to members by Representative Goodwin) are attached and made part of these minutes. Representative Goodwin said the need for this bill came to his attention from a number of school administrators, principals and superintendents from his district who expressed concern over losing the best and most productive school personnel across the border to South Carolina. This was a concern not only for school personnel, but also for state agencies across North Carolina, not just border counties. The bill adds a new section GS 135-5 to allow state employees to retire with full benefits after 28 years of service (was 30 years). It applies to members retiring on or after July 1, 2001. It also adds new GS 135-18.9 creating the Teacher and State Employee Retention Incentive Program. Under the program, an employee eligible for retirement may continue to work for a determined period, not to exceed five years. The employee is classified as retired, but receipt of retirement benefits is deferred until the end of the program period. The employer must make contributions to an account for the employee in an amount equal to the amount an employer would pay into the retirement system for a regular employee. At the end of the program period, the employee receives the balance in the account as well as regular retirement benefits. The bill would apply to members eligible to retire on July 1, 2001, and after.

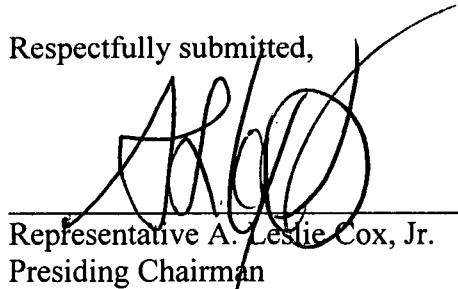
Ardis Watkins with The State Employees Association of North Carolina spoke in support of the bill. Mr. Brandon Thomas, The State Employees Association of North Carolina, stated that South Carolina has a similar plan. Of approximately 7,000 employees eligible for the plan, over 70% chose to participate. A private citizen who is an employee of the North Carolina Department of Transportation, and Mr. Carl Goodwin with the Office of State Personnel, also spoke in support of the bill.

Chairman Cox removed the bill from the agenda after questions and concerns were expressed by members of the Committee. It will be placed on the agenda for the next meeting of the House Pensions and Retirement Committee. Chairman Cox requested those present who wanted to speak on the bill to be present for the next meeting of the Committee.

Chairman Cox recognized Mr. Michael Williamson, Director, Retirement Division, to give a report from the North Carolina Department of State Treasurer. Attached and made part of these minutes are copies of a handout from Mr. Williamson regarding funding of the North Carolina Teachers' and State Employees' Retirement System as well as a copy of Mr. Williamson's remarks


There being no further business, the Chairman adjourned the meeting at 12:55PM.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Representative Daniel W. Barefoot



Ferebee Stainback
Committee Assistant

VISITOR REGISTRATION SHEET

LEGISLATIVE COMMITTEE

Pensions & Retirement

May 30, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Carl Goodwin	OSP
B. E. [unclear]	IBC
Katherine Carpenter	intern for Sen. Moore
Alexis Watkins	SEANC
BRANDON THOMAS	SEANC
TRACY BROWN	SEANC
Matt Osborne	AOC
J. Prohi	NCAAG
[unclear] Cook	NERGEA
Debra Bryan	Treasurer - Retirement
Marshall Berman	Dept of State Treasurer

VISITOR REGISTRATION SHEET

Persons & Retirement
Name of Committee

5-30-01

Date

VISITORS:.. PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS[illegible]

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1022

Short Title: 28-Year Retirement/Retention Incentive.

(Public)

Sponsors: Representatives Goodwin; and Buchanan.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW MEMBERS OF THE TEACHERS' AND STATE
EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED
BENEFITS AFTER TWENTY-EIGHT YEARS OF SERVICE AND TO
ESTABLISH A RETENTION INCENTIVE PROGRAM FOR MEMBERS OF THE
RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000,
2000, but Before July 1, 2001.- Upon retirement from service in accordance with
subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
shall receive the following service retirement ~~allowance~~: allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday, and completion of five years of creditable service
as a law enforcement officer, or after the completion of 30 years
of creditable service, the allowance shall be equal to one and
eighty-one hundredths percent (1.81%) of his average final
compensation, multiplied by the number of years of his
creditable service.

b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and
prior to the completion of 30 years of creditable service, his
retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday, and completion of five years of creditable service
as a law enforcement officer, or after the completion of 28 years
of creditable service, the allowance shall be equal to one and
eighty-one hundredths percent (1.81%) of his average final
compensation, multiplied by the number of years of his
creditable service.

b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and
prior to the completion of 28 years of creditable service, his
retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S.
135-5(b19)(1)a. reduced by one-third of one percent (1/3
of 1%) thereof for each month by which his retirement
date precedes the first day of the month coincident with
or next following the month the member would have
attained his 55th birthday; or

2. The service retirement allowance as computed under
G.S. 135-5(b19)(1)a. reduced by five percent (5%) times
the difference between 28 years and his creditable
service at retirement.

(2) A member who is not a law enforcement officer or an eligible former
law enforcement officer shall receive a service retirement allowance
computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 28 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 28 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 28 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5(m) reads as rewritten:

"(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the principal beneficiary designated to receive a return of accumulated contributions shall have the right to elect to receive in lieu thereof the reduced retirement allowance provided by Option 2 of subsection (g) above computed by assuming that the member had retired on the first day of the month following the date of his death, provided that the following conditions apply:

- (1) a. The member had attained such age and/or creditable service to be eligible to commence retirement with an early or service retirement allowance, or
- b. The member had obtained 20 years of creditable service in which case the retirement allowance shall be computed in accordance with ~~G.S. 135-5(b18)(1)b.~~ G.S. 135-5(b19)(1)b. or ~~G.S. 135-5(b18)(2)c.,~~ G.S. 135-5(b19)(2)c., notwithstanding the requirement of obtaining age 50.
- (2) The member had designated as the principal beneficiary to receive a return of his accumulated contributions one and only one person who was living at the time of his death.
- (3) The member had not instructed the Board of Trustees in writing that he did not wish the provisions of this subsection to apply.

For the purpose of this benefit, a member is considered to be in service at the date of his death if his death occurs within 180 days from the last day of his actual service. The last day of actual service shall be determined as provided in subsection (l) of this section. Upon the death of a member in service, the surviving spouse may make all purchases for creditable service as provided for under this Chapter for which the member had made application in writing prior to the date of death, provided that the date of death occurred prior to or within 60 days after notification of the cost to make the purchase. The term "in service" as used in this subsection includes a member in receipt of a benefit under the Disability Income Plan as provided in Article 6 of this Chapter."

SECTION 4. Article 1 of Chapter 135 of the General Statutes is amended by adding a new section to read:

"§ 135-18.9. Retention Incentive Program.

(a) A member who is eligible for service retirement under this Chapter and complies with the requirements of this section may elect to participate in the Teacher and State Employee Retention Incentive Program. A member electing to participate in the program retires for purposes of the System, and the member's normal retirement benefit is calculated on the basis of the member's average final compensation and service credit at the time the program period begins. The program participant shall agree to continue employment with an employer participating in the System for a program period, not to exceed five years. The member shall notify the System before the beginning of the program period. Participation in the program does not guarantee employment for the specified program period.

(b) During the specified program period, receipt of the member's normal retirement benefit is deferred. The member's deferred monthly payment shall be placed

1 in the System's trust fund on behalf of the member. No interest shall be paid on the
2 member's deferred monthly benefit placed in the trust fund during the specified program
3 period.

4 (c) During the specified program period, the employer shall pay to the System
5 the employer contribution for active members prescribed by law with respect to any
6 program participant it employs, regardless of whether the program participant is a part-
7 time employee, a temporary employee, or a full-time employee. If an employer who is
8 obligated to the System pursuant to this subsection fails to pay the amount due, as
9 determined by the System, the amount shall be deducted from any funds payable to the
10 employer by the State.

11 (d) A program participant is retired from the System as of the beginning of the
12 program period. A program participant makes no further employee contributions to the
13 System, accrues no service credit during the program period, and is not eligible to
14 receive group life insurance benefits or disability retirement benefits. Accrued annual
15 leave and sick leave used in any manner in the calculation of the program participant's
16 retirement benefits is deducted from the amount of that leave accrued by the participant.

17 (e) A program participant is retired for retirement purposes only. For
18 employment purposes, a program participant is considered to be an active employee,
19 retaining all other rights and benefits of an active employee and is not subject to the
20 earnings limitation of G.S. 135-3(8)c. during the program period.

21 (f) Upon termination of employment either during or at the end of the program
22 period, the member shall receive the balance in the member's program account by
23 electing one of the following distribution alternatives:

24 (1) A lump-sum distribution, paying appropriate taxes; or

25 (2) To the extent permitted by law, a tax-sheltered rollover into an eligible
26 plan;

27 The member also shall receive the previously determined normal retirement benefits
28 based upon the member's average final compensation and service credit at the time the
29 program period began, plus any applicable cost-of-living increases declared during the
30 program period. The program participant is thereafter subject to the earning limitation
31 of G.S. 135-3(8)c.

32 (g) If a program participant dies during the specified program period, the
33 member's designated beneficiary shall receive the balance in the member's program
34 account by electing one of the distribution alternatives set forth in subsection (f) of this
35 section. In accordance with the form of System benefit selected by the member at the
36 time the program commenced, the member's designated beneficiary shall receive either
37 a survivor benefit or a refund of contributions from the member's System account.

38 (h) If a program participant fails to terminate employment with an employer
39 participating in the System within one month after the end of the specified program
40 period, the member shall receive the previously determined normal retirement benefits
41 based upon the member's average final compensation and service credit at the time the
42 program began, plus any applicable cost-of-living increases declared during the
43 program period. The program participant is thereafter subject to the earning limitation
44 of G.S. 135-3(8)c. The program participant also shall receive the balance in the

1 member's program account by selecting one of the distribution alternatives set forth in
2 subsection (f) of this section.

3 (i) A member is not eligible to participate in the program if the member has
4 participated previously in and received a benefit under this program or any other state
5 retirement system."

6 **SECTION 5.** Section 4 of this act becomes effective July 1, 2001, and
7 applies to persons eligible to retire from the Teachers' and State Employees' Retirement
8 System on or after that date. The remainder of this act becomes effective July 1, 2001.



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May 29, 2001

MEMORANDUM

TO: Representative Goodwin

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1022

Re: Reduces the years of service required for an unreduced benefit from 30 years to 28 years for members of the Teachers' and State Employees' Retirement System and establishes a Retention Incentive Program.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, May 29, 2001
- (3) Actuarial Note, Hartman & Associates, May 28, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1022

SHORT TITLE: 28-Year Retirement/Retention Incentive

SPONSOR(S): Representative Goodwin

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

FUNDS AFFECTED: General Fund, Highway Fund, and Receipts Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 28 years of service as a certified correctional officer regardless of age and allows for a Teacher and State Employee Retention Incentive Program. This program allows a member of the retirement system to retire but continue to work for a period of time not to exceed five years. During this period of time, the retirement benefit is paid into special account alone with any cost-of-living increases granted, until the employee terminates employment. Then the retiree receives a lump sum payment of balance of special account and begins to receive retirement benefits on monthly basis. Also, during this period, the retirement system continues to receive employer contributions, but no employee contributions, and the employee earns no additional retirement service.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: Teacher and State Employee Retention Incentive Program
Retirement System Actuary: Buck Consultants estimates the cost for the Retention Incentive Program will increase by .37% of the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$26.5	\$28.1	\$29.8	\$31.6	\$33.4
Highway Fund	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.6	\$ 1.7
Receipt Funds	<u>\$ 8.0</u>	<u>\$ 8.4</u>	<u>\$ 8.9</u>	<u>\$ 9.3</u>	<u>\$ 9.8</u>
Total Cost	\$35.9	\$38.0	\$40.2	\$42.5	\$44.9

General Assembly Actuary: Hartman & Associates estimates a cost ranging from .18% to a saving of .21% depending on the number of participants in the Retention Incentive Program. This is based on the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$12.9-(\$15.1)	\$13.7-(\$15.9)	\$14.5-(\$16.9)	\$15.4-(\$17.9)	\$16.3-(\$18.9)
Highway Fund	\$ 0.7 - (\$0.8)	\$ 0.7 - (\$0.8)	\$ 0.7 - (\$0.9)	\$ 0.7 - (\$ 0.9)	\$ 0.7 - (\$1.0)
Receipt Funds	<u>\$3.9-(\$4.5)</u>	<u>\$4.1-(\$4.8)</u>	<u>\$4.3 -(\$5.0)</u>	<u>\$4.5 -(\$5.3)</u>	<u>\$4.8-(\$5.6)</u>
Total	\$17.4-(\$20.4)	\$18.5-(\$21.6)	\$19.5-(\$22.8)	\$20.7-(\$24.1)	\$21.9-(\$25.5)

Teachers' and State Employee's Retirement System: Estimated cost to drop retirement requirement from 30 years to 28 years.

Retirement System Actuary: Buck Consultants estimates the cost to be 1.23% of the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$88.2	\$93.5	\$99.0	\$104.9	\$111.2
Highway Fund	\$ 4.5	\$ 4.8	\$ 5.1	\$ 5.4	\$ 5.7
Receipt Funds	<u>\$ 26.6</u>	<u>\$28.0</u>	<u>\$29.5</u>	<u>\$ 31.0</u>	<u>\$ 32.7</u>
TOTAL COST	\$119.3	\$126.2	\$133.6	\$141.3	\$149.5

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.3% of the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$ 93.2	\$ 98.8	\$ 104.7	\$110.9	\$117.5
Highway Fund	\$ 4.8	\$ 5.0	\$ 5.3	\$ 5.7	\$ 6.0
Receipt Funds	<u>\$ 28.1</u>	<u>\$ 29.6</u>	<u>\$ 31.2</u>	<u>\$ 32.8</u>	<u>\$ 734.6</u>
TOTAL COST	\$126.1	\$133.4	\$144.2	\$149.4	\$158.1

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.

SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: May 29, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

May 29, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1388

House Bill 1022

Dear Mr. Williamson:

We have received your letter of April 11 regarding proposed legislation which affects the Teachers' and State Employees' Retirement System.

This Bill appears to encourage retirement by providing unreduced service retirement benefits to members after 28 years of creditable service (currently 30). This legislation also amends the calculation of reduced retirement benefits by changing the determination of the reduction to 5% times the difference between 28 years (currently 30) and the creditable service at retirement.

This Bill also appears to create a Teacher and State Employee Retention Incentive Program (a deferred retirement option plan) whereby a participant retires for retirement purposes only and for employment purposes continues to be an active employee. Under this program, the participants deferred retirement allowance is calculated on the basis of the member's AFC and service credits at the time the program period begins. The program participant agrees to continue employment for a period not to exceed five years.

During the specified program period, the payment of the member's normal retirement benefit is deferred and remains in the System's trust fund. No interest is paid on the deferred monthly benefits during the specified program period. The employer continues to pay to the System the employer contribution at the same rate paid for active members with respect to any program participant it employs. A program participant makes no further employee contributions and is not eligible for group life insurance benefits or disability retirement benefits.

Upon termination of employment, the member will receive the balance in the member's program account by either a lump sum distribution or, to the extent permitted by law, a tax-sheltered rollover. Of course, the member will begin receiving the previously determined normal retirement benefits plus any applicable cost-of-living adjustments granted during the program period.

Buck Consultants, Inc.

770/955-2488 Fax 770/933-8336

Mr. Michael L. Williamson

May 29, 2001

Page 2

The cost of 28-year retirement is estimated to be 1.23% of payroll based on the December 31, 1999 valuation. The cost of the DROP in conjunction with 28-year retirement is 0.37% of payroll based on the December 31, 1999 valuation assuming that an additional 40% of members less than age 60 retire each year. The total cost of this proposal is 1.60% of payroll.

As a technical observation, subsection (e) of Section 4 of the Bill is not clear as to whether the Retirement System or the employer is responsible for the State's contribution for hospital/medical coverage and that subsection (g) is not clear relative to the benefits payable a beneficiary in the event a program participant dies within the program period.

There is no empirical evidence that DROP's actually defer retirement over the long term. However, there is a significant administrative burden for the implementation of DROP plans on the staff and the computer systems that are utilized. There appears to be no funding mechanism for the increase in administrative costs. Additionally, there is no funding provision in this Bill.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:jg

P:\NCTB\2001\Docs\Corr\HB 1022.Doc
00387-0001 RET03/180

BUCK
CONSULTANTS

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668 Link Road
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May 28, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1022: An Act to Allow Members of the TSERS to Retire with Unreduced Benefits After Completing Twenty-Eight Years of Service and to Establish a Retention Incentive Program

Dear Mr. Moore:

This bill amends G.S. 135-5 to modify the retirement provisions in the Teachers' and State Employees' Retirement System. Currently, members, other than law enforcement officers, may receive an unreduced retirement allowance upon attainment of age 65 and completion of 5 years of service, attainment of age 60 and completion of 25 years of service, or at any age upon completion of 30 years of service. Law enforcement officers may receive an unreduced retirement allowance upon attainment of age 55 and completion of 5 years of service or at any age upon completion of 30 years of service. This act reduces the 30 year of service requirement and provides that any member may retire with an unreduced allowance at any age with 28 years of service.

This act also adds a new section, G.S. 135-18.9, to create a Retention Incentive Program, or Deferred Retirement Option Program (DROP). Under this program, a member who is eligible for service retirement would be allowed to continue employment for up to five years. The member's retirement allowance would be calculated based on his service and average final compensation at the time he enters the program. During the period of program participation, receipt of the member's benefit is deferred and placed in an account within the System's trust fund on behalf of the member. No interest is paid on the deferred benefit, and no employee contributions are required. At the end of the period of program participation, the previously determined retirement allowance, plus any applicable cost-of-living increases declared

Mr. Stanley Moore
May 28, 2001

during the period, becomes payable. The balance in the member's account is payable as a lump-sum. If a member dies during the program period, his beneficiary receives the balance in his account.

This act becomes effective July 1, 2001 and applies to members retiring on or after that date.

Changing the service requirement for an unreduced retirement allowance to 28 years would increase both the employer's normal contribution rate and the accrued liability contribution. The estimated total cost expressed as a percentage of payroll, is an increase of 1.30% of pay. This corresponds to a total annual increase in employer contributions for the fiscal year beginning July 1, 2001 of approximately \$125.9 million and provides amortization of the additional unfunded accrued liability over a 9 year period.

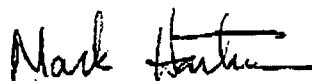
The financial impact of the DROP Program on the Plan depends upon which members elect to participate in DROP. Those electing this option may be either (i) employees who would have retired without the DROP program but elected to continue their employment, or (ii) employees who would have continued in employment without the DROP option. The estimated cost/(savings) to the TSERS for a range of splits between the above groups is shown below:

<u>% of DROP Participants who would have retired</u>	<u>Cost of DROP as % of Payroll</u>
10%	0.18%
50	(0.02)
90	(0.21)

These estimates are based on the actuarial valuations and experience investigations prepared as of December 31, 1999. The DROP projections assume that 20% of the members eligible to participate in the DROP option elect to do so.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

Brandon Thomas, bthomas@seanc.org
Ardis Watkins, awatkins@seanc.org
Sherry Melton, smelton@seanc.org
SEANC Legislative Affairs
(919) 833 - 6436

Issue:

House Bill 1022 – 28-Year Retirement/Retention Incentive

Background:

North Carolina law allows retired teachers to return to work after twelve months with no cap on income, and there are currently proposals that would reduce or remove the twelve-month waiting period. If a state employee returns to work for the State after retirement, there is a cap on the amount that he or she can earn, and if this amount is exceeded, retirement benefits would be lost.

Response:

The State should be making an effort to retain its qualified state employees. House Bill 1022 allows state employees, as well as teachers, to retire for purposes of the retirement system, with their normal retirement benefit calculated on the basis of average final compensation and service credit. The employee can then return to work for a period not to exceed five years. In short, the employee retires and begins accumulating retirement benefits without having to terminate employment, and there is no earnings cap. A participant in the Teacher and State Employee Retention Incentive Program makes no further employee contributions to the System, but will retain the same employment status and rights that they held before retirement, remaining eligible for all active state employee benefits (excluding accrual of service credit during the program period, and eligibility for group life insurance and disability retirement benefits). The retirement benefits are deferred into a trust fund until the employee stops working entirely. At this point, the employee will begin receiving his or her monthly retirement benefit plus any cost-of-living increases granted during the period. The balance of the trust fund can then be distributed to the employee by either lump sum payment, with appropriate taxes paid, or a tax-sheltered rollover into an eligible plan.

- * North Carolina's annual attrition rate is 15 percent, with numerous agencies facing even higher percentages.
- * An estimated 12,289 members of the Teachers' and State Employees' Retirement system – which includes employees of State government, public schools, universities, community colleges and law enforcement – are eligible to retire July 1, 2001, and there are currently no real incentives to keep working.
- * House Bill 1022, while offering an earlier retirement, encourages experienced employees, those with ten to twenty years of service, to continue working for the State and obtain their retirement benefits. It also provides a substantial incentive for employees eligible to retire to continue active employment, thereby reducing the number of experienced workers the State unnecessarily loses each year.

Summary of Changes in Undistributed Gains within the
Teachers' and State Employees' Retirement System as
Recommended by the Board of Trustees

Based upon the December 31, 1999 valuation, there were undistributed gains available in the Teachers' and State Employees' Retirement System equaling 2.15% of payroll. The Board of Trustees made the following recommendations:

<u>Proposed Uses for Gains</u>	<u>Gains Available as a Percent of Payroll</u>
-Gains available based on 1999 valuation	2.15
-Provide 3.5% cost of living adjustment to beneficiaries (COLA)	(.97)
-Increase in benefit formula from 1.81 to 1.83	<u>(.83)</u>
-Subtotal	(1.80)
-Remaining undistributed gains	.35

Summary of Undistributed Gains Within the Teachers' and State Employees' Retirement System Based Upon Governor Easley's Budget and Adjustments Made Due to Escrowed Funds

Based upon Governor Easley's budget, funding improvements as proposed by Treasurer Moore and the escrowing of five months of employer contributions during the current fiscal year, the actuary reports the distribution of gains in the system as follows:

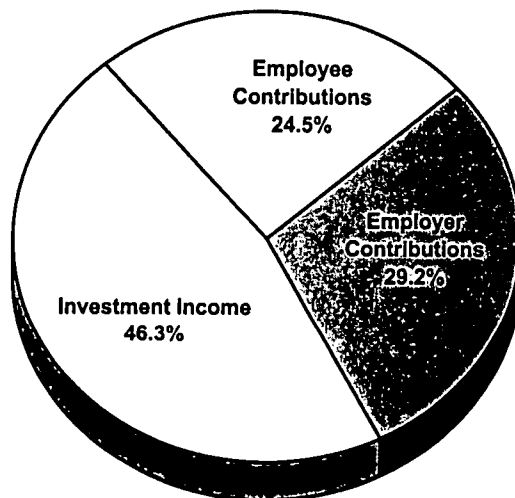
<u>Proposed Uses of Gains</u>	<u>Gains Available as a Percent of Payroll</u>
December 31, 1999 valuation	2.15%
-Reduction in gains due to escrowing employer contributions from February through June 30, 2001	(0.33)
-Remove the artificial asset cap of 77% currently in state statutes and replace with a smoothed market asset valuation method used by many other systems	2.19
-Employer contribution rate of 2.37% with a 12-year amortization period*	(4.01)
-Remaining gain	0.00

*Increase employer contribution rate from 2.37% to 2.83% to fund a 2% Cost of Living adjustment over 12 years

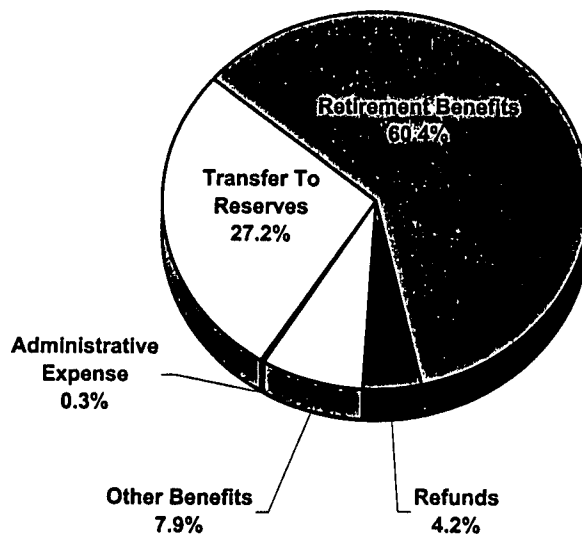
**DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION**

**Year Ended December 31, 2000
(Unaudited)**

Sources of Funds



Applications of Funds



House Pension Committee Funding Presentation
May 30, 2001

- During recent meetings, there have been several questions raised regarding the current funding level of the Teachers' and State Employees Retirement System and how proposed legislation might affect this system.
- The Chairs have asked me today to provide a short overview of how our system is funded and whether it is as financially sound as it has been in recent years. The concepts we are going to talk about today are complex and sometimes confusing. I will try and make this as simple as possible.
- I would like to make a short presentation about the funding of the system as well as some improvements that Treasurer Moore has proposed to improve its financial and actuarial strength.
- Ed MacDonnald, our actuary from Buck Consultants in Atlanta is here with me today. After the presentation, both he and I would be happy to try and answer any questions you might have.
- There are basically three ways in which retirement systems are funded. I refer you to the ^{first} ~~second~~ page in your handout.
- The three ways are employer contributions, employee contributions and return on the investment of the assets of the system. You can see the percentages of each on this chart for the year ending 12/31/00.

- In the bottom, pie chart, you can see how these funds are spent. Over 25% were used to pay retirement benefits. Small amounts were used for refunds, other benefits and a sliver was used for administration of the system. The bulk of the funds are set aside to pay benefits in the future.
- The Teachers' and State Employees Retirement System was created in 1941. At that time, the actuary was asked to calculate how much it would cost to provide retirement benefits for all the current employees who are expected to retire.
- Since there were a large number of employees on the payroll for which no retirement contributions had ever been made, the actuary estimated the amount of money required to fully fund their accrued retirement benefits.
- This amount is frequently referred to as an unfunded liability- costs for which there are no funds to cover. In everyday language, the retirement system had a debt that must be paid off.
- There is also another rate known as the normal rate. This is the rate required to fund the benefits in the current year. The normal rate for our system is 6.9%.
- The Governmental Accounting Standards Board, or GASB, which regulates accounting practices, requires that this debt must be fully paid off in no more than 40 years.
- So the Board of Trustees and the Legislature, based on the advice of the actuary, adopted an employee and an employer contribution rate that would fully

fund the system over a number of years. This period of time is known as the amortization period.

- When you buy a home, you borrow money to purchase the house by taking out a mortgage. This mortgage can be set for various numbers of years including 30, 25, 15 etc. and can be changed periodically.
- The same approach is applied to paying off the unfunded liability for a retirement system.
- At the end of each calendar year, the actuary, in our case Ed, looks at our experience during that year (how many people retired, how many employees came into the system, how many left, how much did payroll go up, and how much did our assets grow or decline due to investment experience.)
- Based on this information, the actuary calculates the employer contribution rate that should be paid to fully fund the system for that year. This is made up of the normal rate plus the rate to cover the outstanding debt or unfunded liability.
- North Carolina has been very responsible in paying off the unfunded liability for the system. The Board of Trustees and the State Legislature has steadily reduced the number of years over which the outstanding debt is amortized from 25, to 20, 15 until it reached the current level of 9 years. This is a quite conservative method for paying off a debt. However, when you have a credit balance, like we do now, 9 years can be viewed as too aggressive. At the end of 9 years, if all the gains are spent, we will revert back to the normal rate of 6.9%.

- This shortening of the amortization period, coupled with consistent gains in the stock market, has created a retirement system that is today financially strong. In fact, for the first time in its 60 year history, it is fully funded. There is no current outstanding debt.
- In addition to retiring the debt in a responsible manner, the BOT and the Legislature has established the employer contribution rate such that there have been additional funds in the system each year to provide benefit enhancements for the members, particularly the retirees.
- These additional funds that have been available at the end of most years are known as undistributed gains. It is this money that the BOT and the Legislature has used to provide Cost Of Living Adjustments for retirees as well as formula improvements for the system. It is this funding that has made many of your retired constituents very happy with the current system.
- I would like to explain one other concept and then we can talk about where we are today.
- It is a common actuarial practice to not use all of the funds in our investments to calculate the valuation of a retirement system. The reason is fairly obvious.
- If you use the value of 100% of our investments, and the market suddenly goes down like it has for the past year, then the system could be seriously underfunded. We do not want the funding of a

retirement system to fluctuate widely with the swings in the market.

- In the past North Carolina, has been very conservative in its assessment of the market-related value of our assets.
- From 1941 to 1995 NC used book value of our assets.
- In 1995, GASB required all government systems to use a market-related value for its assets.
- From 96-98 NC used a market-related value as determined by the actuary.
- In 99 state statutes were changed to use an asset-value as determined by the Legislature. It was set at 77%.
- We are the only state where this method is used.
- Most systems use a five-year smoothing method where the market-related value of the assets is adjusted by 20% of the difference between market value and market-related value each year. This creates a process where the funds are adjusted in a gradual manner but still tied directly to what is happening in the market. However, the adjustments are not too radical in either direction, either up or down.
- Let me stop here and see if there are any questions before we talk about where the system is today.
- Next, let's look at the recommendations that you voted on last week from the Board of Trustees. Funds are expressed as a percentage of payroll, which is different than the numbers you usually work with in this body.

- (See handout)
- According to the 1999 valuation, there was 2.15% of payroll or 215 basis points that were undistributed and available in the system.
- The BOT recommended that .97% be used to provide a 3.5% Cost of Living Adjustment to retirees and .83% be used to increase the benefit formula from 1.81 to 1.83. There were 35 basis points left undistributed under this proposal.
- Under this proposal, the employer contribution rate would have remained at its current level of 5.33% of payroll.
- This is the package that you approved last week.
- Also attached is detail around the provisions included in Governor Easley's budget.
- In an effort to maintain our system strong financial status, Treasurer Moore recommended two reforms which Governor Easley included in his package.
- First, the Treasurer requested that we do away with the 77% of market value that is currently in the statutes and use the more accepted method of five-year smoothing. The package approved by Senate appropriations on Monday includes this provision and we applaud their action.
- Second, the Treasurer requested that we move away from the current 9-year amortization period to a more responsible 15-year period.
- As I said earlier, while it is very responsible to try and pay off an unfunded liability in fewer years, it is not good policy to spend the gains in the system in nine years once it becomes fully funded.

- Under the current amortization period, the state would spend all of the gains it has accumulated over the past 20-25 years in just 9 years- a period that is far too short. Rather it would be better to lengthen this period out to at least 15 years.
- The Governor agreed to these changes and his budget includes both of them. Based on these provisions, and the awarding of a 2% COLA to retirees, the new employer contribution rate would become 2.83%. The Governor took the funds that were to be contributed to the retirement system and provided a 2% pay increase for active state employees.
- Chart 3 shows how this is calculated. As you will note, there is a deduction of 33 basis points shown to provide for the retirement contributions that were escrowed and not made to the retirement system this year.
- Again, I apologize for all the numbers and how confusing this may seem. However, Ed and I are willing to try and answer any questions that you might have.

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

AGENDA

June 13, 2001
Room 415 LOB
12:00 Noon

OPENING REMARKS

Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee

AGENDA ITEMS

HB 1022 28-YEAR RETIREMENT/RETENTION INCENTIVE
Representative Wayne Goodwin, Sponsor

HB 1390 RETIREMENT WITHDRAWAL SERVICE
Representative Martin Nesbitt, Sponsor

ADJOURNMENT

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

AGENDA

June 13, 2001
Room 415 LOB
12:00 Noon

OPENING REMARKS

Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee

AGENDA ITEMS

HB 1022 28-YEAR RETIREMENT/RETENTION INCENTIVE

Representative Wayne Goodwin, Sponsor

mation by Rep. Kay to direct staff to prepare a p.c.s. that a

HB 1390 RETIREMENT WITHDRAWAL SERVICE

Representative Martin Nesbitt, Sponsor

*NOT
Covered*

*CONTINUED from 6.6.0
last mtg.*

Study on PCs?

*should create a
study bill.*

(Vote on it next week)

ADJOURNMENT

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT JUNE 13, 2001

The House Committee on PENSIONS AND RETIREMENT met on Wednesday, June 13, 2001 at 12:00 p.m. in Room 415 of the Legislative Office Building. Members present were Representative(s) Barefoot and Cox, Cochairs; and Representative(s) McCombs, Barbee, Hensley, Rogers, Shubert, Tolson, Wilson, G., and Yongue. The Visitor Registration Sheet is attached. Other attachments are listed and have been made a part of the Minutes.

Representative Barefoot called the meeting to order and introduced the pages serving the committee: Drexel RaShawn King of Wake County, sponsored by Representative Blue; and Kourtney Barnes of Wake County, sponsored by Representative Fitch.

HOUSE BILL 1022, 28-year Retirement/Retention Incentive, sponsored by Representative Goodwin, was before the committee for consideration. HB 1022 was continued from the last meeting. Representative Goodwin answered questions that were raised at the last committee meeting: *how has the 28-year retirement fared in other states,what the costs/successes have been in other states ,.....was there an affect on tenure, ...and if someone had to resign to participate in the DROP program.* He further explained that there were more savings than costs in the bill if employees who are first eligible for retirement defer their retirement, or there may be cost increases if employees who have already postponed retirement take advantage of the benefits of the bill without changing their retirement behavior.

Artis Watkins, with the State Employees' Association of North Carolina, spoke in favor of the bill and offered to answer any questions. Linda Suggs, with the North Carolina Association of School Administrators, distributed a summary of DROP program information in other states (Attachment 5).

Representative Starnes questioned if there was a penalty if the employee does not complete the extra five years of service contracted in the DROP program in five consecutive years. Representative Goodwin answered that it is five one-year periods and does not have to be one five-year period. Representative McCombs asked if the employees are still able to accumulate sick leave and vacation. Karen Cochrane-Brown, Staff Counsel, that the bill indicates that annual leave and sick leave used in any manner in the calculation of the program participant's retirement benefits would be deducted from the amount of that leave accrued by the participant. She explained that they would be considered an active employee for employment purposes, and could accrue more benefits.

Leann Winter, with the North Carolina School Boards Association, stated their concern about reducing the 30 years down to 28 years because of the great shortage of teachers throughout the state. She said that they support an incentive program and maintaining the 30 years.

Lubin Prevatt, a state employee, spoke about the devastation throughout the state of losing experienced employees. He explained that after 30 years, a state employee could retire and get retirement benefits while working somewhere else, whereas he or she would not receive benefits by continuing to work for the state. Likewise, someone not hired by the state may retire from another employer and then be hired by the state and receive benefits such as leave from the state.

Michael Williamson, Director of the State Retirement System, commented that the bill encourages people to retire early while encouraging people to come back to work. He discussed the DROP program saying there is no statistical evidence that DROP programs get employees to come back to work. The data shows that people participate in the program in great numbers, but there is no evidence that they would have retired if they were not members of the program. He discussed the programs in Arkansas, Louisiana, and Texas where there are problems with too many participants in the program. He commented that it would be difficult to make the program cost neutral. He stated that he is not opposed to employee benefits as long as they are funded and the state has the capability to implement them, and that they do not segregate out groups to give special benefits.

Representative Rogers asked about the relation between the 28 years and the DROP program. Stanley Moore, Staff Analyst, explained that it is a two-part program. First, it reduces the number of years an employee has to work to retire with out a reduction in benefits from 30 years to 28. The other part makes a voluntary program for the employee who wants to retire to enter the employee retention program. Under the program, an employee eligible for retirement may continue to work for a determined period, not to exceed five years. The employee is classified as retired, but receipt of retirement benefits is deferred until the end of the program period. The employer must make contributions to an account for the employee in an amount equal to the amount an employer would pay into the retirement system for a regular employee. At the end of the program period, the employee receives the balance in the account as well as regular retirement benefits.

Representative Yongue asked how the bill addresses tenure. Tom Stern, an attorney with NCAE, said the bill did not address tenure by name. It did say that the person would maintain status of an active employee. Teachers lose their tenure upon retirement, so teachers would lose tenure after the 28 years while they are still employed if participating in the program.


Representative McCombs suggested that the bill sponsor refer the bill to the study committee that is already considering 25-year retirement. Representative Goodwin responded that perhaps part of the bill could go into a study committee while the other part is voted on separately. He preferred to go forward with some part of the bill.

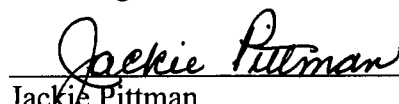
Representative Rogers moved that the bill be referred to a study committee. Karen Cochrane-Brown informed him that that particular motion was not in order. Representative Rogers withdrew his motion.

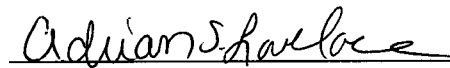
Representative Starnes said that teachers in his district are frustrated with having to wait a year to come back to teach after retiring. Representative Rogers said the Senate's budget changed that year to six months, and the teachers could be substitute teachers for that amount of time. Stanley Moore said there is a cost of \$4.3 million to change the amount of time before they can come back.

Representative Cox moved that a proposed committee substitute for HB 1022 be prepared that would make the bill a part of the LRC studies bill, and the motion carried. The Legislative Research Commission has the authority to combine any issues in the studies bill and assign them to an appropriate study commission.

The meeting was adjourned.


Representative Barefoot
Presiding Committee Chair


Jackie Pittman
Committee Assistant


Adrian Lovelace
Transcribing Committee Assistant

Attachments:

Committee Meeting Agenda
Visitor Registration Sheet
House Bill 1022 *and summary*
Actuarial Note for House Bill 1022
Additional State DROP Information distributed by Linda Suggs
SEANC handout distributed by Representative Goodwin

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

AGENDA

June 13, 2001
Room 415 LOB
12:00 Noon

OPENING REMARKS

**Representative Dan Barefoot, Chairman Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

- HB 1022 28-YEAR RETIREMENT/RETENTION INCENTIVE**
Representative Wayne Goodwin, Sponsor
- HB 1390 RETIREMENT WITHDRAWAL SERVICE**
Representative Martin Nesbitt, Sponsor

ADJOURNMENT

VISITOR REGISTRATION SHEET

ATTACHMENT #2

PENSIONS AND RETIREMENT

June 13, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

BARRY SHOAF	PFF-PNC
Frank Lewis	OSBPM
Steve Hoffman	NC SBA
<i>[Signature]</i>	WCPSS
Ronnie Condrey	DOI
Lubin Prevatt	NC Citizen, State Employee
<i>[Signature]</i>	NC DOR
Jamie Woodlief	SBE
GARY JARRETT	DPI
Mr. David Williamsen	State Treasurers
Marshall Brown	State Treasure

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

June 13, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Parula Best	AOC
Julia Aygn	NCLASA
Brendon Thms	SEANC
Arden V.A	SEANC
Sherry Meltz	SEANC
Ethelene Fargy JACK POLKARD	Electricities NCLAS
Tom Stern	NCLAS
Ron McKinnery	NCLAS
JOSEPH M. SANSON	TREAS DEPT.
Richard O'Brien	PFFPNC

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1022

Short Title: 28-Year Retirement/Retention Incentive.

(Public)

Sponsors: Representatives Goodwin; and Buchanan.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW MEMBERS OF THE TEACHERS' AND STATE
EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED
BENEFITS AFTER TWENTY-EIGHT YEARS OF SERVICE AND TO
ESTABLISH A RETENTION INCENTIVE PROGRAM FOR MEMBERS OF THE
RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000,
2000, but Before July 1, 2001.— Upon retirement from service in accordance with
subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
shall receive the following service retirement allowance: allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday, and completion of five years of creditable service
as a law enforcement officer, or after the completion of 30 years
of creditable service, the allowance shall be equal to one and
eighty-one hundredths percent (1.81%) of his average final
compensation, multiplied by the number of years of his
creditable service.

b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and
prior to the completion of 30 years of creditable service, his
retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
- Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

a. If the member's service retirement date occurs on or after his 55th birthday, and completion of five years of creditable service as a law enforcement officer, or after the completion of 28 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of his creditable service.

b. If the member's service retirement date occurs on or after his 50th birthday and before his 55th birthday with 15 or more years of creditable service as a law enforcement officer and prior to the completion of 28 years of creditable service, his retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b19)(1)a. reduced by one-third of one percent (1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(1)a. reduced by five percent (5%) times the difference between 28 years and his creditable service at retirement.

(2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 28 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 28 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 28 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5(m) reads as rewritten:

1 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
2 principal beneficiary designated to receive a return of accumulated contributions shall
3 have the right to elect to receive in lieu thereof the reduced retirement allowance
4 provided by Option 2 of subsection (g) above computed by assuming that the member
5 had retired on the first day of the month following the date of his death, provided that
6 the following conditions apply:

- 7 (1) a. The member had attained such age and/or creditable service to
8 be eligible to commence retirement with an early or service
9 retirement allowance, or
10 b. The member had obtained 20 years of creditable service in
11 which case the retirement allowance shall be computed in
12 accordance with ~~G.S. 135-5(b18)(1)b.~~ G.S. 135-5(b19)(1)b. or
13 ~~G.S. 135-5(b18)(2)c.,~~ G.S. 135-5(b19)(2)c., notwithstanding the
14 requirement of obtaining age 50.
15 (2) The member had designated as the principal beneficiary to receive a
16 return of his accumulated contributions one and only one person who
17 was living at the time of his death.
18 (3) The member had not instructed the Board of Trustees in writing that he
19 did not wish the provisions of this subsection to apply.

20 For the purpose of this benefit, a member is considered to be in service at the date of
21 his death if his death occurs within 180 days from the last day of his actual service. The
22 last day of actual service shall be determined as provided in subsection (l) of this
23 section. Upon the death of a member in service, the surviving spouse may make all
24 purchases for creditable service as provided for under this Chapter for which the
25 member had made application in writing prior to the date of death, provided that the
26 date of death occurred prior to or within 60 days after notification of the cost to make
27 the purchase. The term "in service" as used in this subsection includes a member in
28 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
29 Chapter."

30 **SECTION 4.** Article 1 of Chapter 135 of the General Statutes is amended by
31 adding a new section to read:

32 **"§ 135-18.9. Retention Incentive Program.**

33 (a) A member who is eligible for service retirement under this Chapter and
34 complies with the requirements of this section may elect to participate in the Teacher
35 and State Employee Retention Incentive Program. A member electing to participate in
36 the program retires for purposes of the System, and the member's normal retirement
37 benefit is calculated on the basis of the member's average final compensation and
38 service credit at the time the program period begins. The program participant shall agree
39 to continue employment with an employer participating in the System for a program
40 period, not to exceed five years. The member shall notify the System before the
41 beginning of the program period. Participation in the program does not guarantee
42 employment for the specified program period.

43 (b) During the specified program period, receipt of the member's normal
44 retirement benefit is deferred. The member's deferred monthly payment shall be placed

1 in the System's trust fund on behalf of the member. No interest shall be paid on the
2 member's deferred monthly benefit placed in the trust fund during the specified program
3 period.

4 (c) During the specified program period, the employer shall pay to the System
5 the employer contribution for active members prescribed by law with respect to any
6 program participant it employs, regardless of whether the program participant is a part-
7 time employee, a temporary employee, or a full-time employee. If an employer who is
8 obligated to the System pursuant to this subsection fails to pay the amount due, as
9 determined by the System, the amount shall be deducted from any funds payable to the
10 employer by the State.

11 (d) A program participant is retired from the System as of the beginning of the
12 program period. A program participant makes no further employee contributions to the
13 System, accrues no service credit during the program period, and is not eligible to
14 receive group life insurance benefits or disability retirement benefits. Accrued annual
15 leave and sick leave used in any manner in the calculation of the program participant's
16 retirement benefits is deducted from the amount of that leave accrued by the participant.

17 (e) A program participant is retired for retirement purposes only. For
18 employment purposes, a program participant is considered to be an active employee,
19 retaining all other rights and benefits of an active employee and is not subject to the
20 earnings limitation of G.S. 135-3(8)c. during the program period.

21 (f) Upon termination of employment either during or at the end of the program
22 period, the member shall receive the balance in the member's program account by
23 electing one of the following distribution alternatives:

24 (1) A lump-sum distribution, paying appropriate taxes; or

25 (2) To the extent permitted by law, a tax-sheltered rollover into an eligible
26 plan;

27 The member also shall receive the previously determined normal retirement benefits
28 based upon the member's average final compensation and service credit at the time the
29 program period began, plus any applicable cost-of-living increases declared during the
30 program period. The program participant is thereafter subject to the earning limitation
31 of G.S. 135-3(8)c.

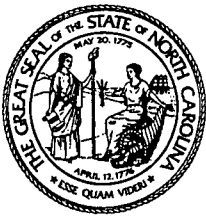
32 (g) If a program participant dies during the specified program period, the
33 member's designated beneficiary shall receive the balance in the member's program
34 account by electing one of the distribution alternatives set forth in subsection (f) of this
35 section. In accordance with the form of System benefit selected by the member at the
36 time the program commenced, the member's designated beneficiary shall receive either
37 a survivor benefit or a refund of contributions from the member's System account.

38 (h) If a program participant fails to terminate employment with an employer
39 participating in the System within one month after the end of the specified program
40 period, the member shall receive the previously determined normal retirement benefits
41 based upon the member's average final compensation and service credit at the time the
42 program began, plus any applicable cost-of-living increases declared during the
43 program period. The program participant is thereafter subject to the earning limitation
44 of G.S. 135-3(8)c. The program participant also shall receive the balance in the

1 member's program account by selecting one of the distribution alternatives set forth in
2 subsection (f) of this section.

3 (i) A member is not eligible to participate in the program if the member has
4 participated previously in and received a benefit under this program or any other state
5 retirement system."

6 **SECTION 5.** Section 4 of this act becomes effective July 1, 2001, and
7 applies to persons eligible to retire from the Teachers' and State Employees' Retirement
8 System on or after that date. The remainder of this act becomes effective July 1, 2001.



HOUSE BILL 1022: 28-Year Retirement/Retention Incentive.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 30, 2001
Version: First Edition

Introduced by: Rep. Goodwin
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 1022 amends the law governing the Teachers' and State Employees' Retirement System to allow members to retire with unreduced benefits after 28 years of service, rather than 30 years, as is currently required. The bill also establishes a Retention Incentive Program for members of the System.*

CURRENT LAW:

Under current law, a member of the Teachers' and State Employees' Retirement System is not eligible for an unreduced retirement allowance, without regard to the member's age, until the member has completed at least 30 years of creditable service.

In addition, if the member retires and returns to State employment, the member is subject to an earnings limitation, which when reached, causes the retirement allowance to be suspended.

BILL ANALYSIS:

This bill would allow members who retire on or after July 1, 2001, to retire at any age with 28 years of creditable service.

The bill also creates a Retention Incentive Program, which allows a member to retire but continue to work for a period of up to five years. During this time the member's retirement allowance would be deferred until the member terminates employment. At that time, the retiree could elect to receive a lump sum payment consisting the member's deferred retirement allowance plus any cost of living increases that may have been granted, or roll over the funds into a tax-sheltered plan, to the extent permitted by federal law. The retiree does not receive earn interest on the deferred payments which are held in a special account while the retiree continues to work. During the period in which the retiree continues to work, the retiree would not pay employee contributions to the System and would not earn service credit. However, the System would continue to receive employer contributions.

The Retention Incentive Program would become effective July 1, 2001, and apply to persons eligible to retire on or after that date. The remainder of the act would become effective July 1, 2001.



**North Carolina General Assembly
Legislative Services Office**

ATTACHMENT #4

George R. Hall, Legislative Services Officer
(919) 733-7044

C. Goldman, Director
Administrative Division
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16 W. Jones Street
Raleigh, NC 27603-5925
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Gerry F. Cohen, Director
Bill Drafting Division
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(919) 733-6660

James D. Johnson, Director
Fiscal Research Division
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Raleigh, NC 27603-5925
(919) 733-2578

May 29, 2001

MEMORANDUM

TO: Representative Goodwin

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1022

Re: Reduces the years of service required for an unreduced benefit from 30 years to 28 years for members of the Teachers' and State Employees' Retirement System and establishes a Retention Incentive Program.

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, May 29, 2001
- (3) Actuarial Note, Hartman & Associates, May 28, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1022

SHORT TITLE: 28-Year Retirement/Retention Incentive

SPONSOR(S): Representative Goodwin

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

FUNDS AFFECTED: General Fund, Highway Fund, and Receipts Funds

BILL SUMMARY: Reduces the service requirement for unreduced retirement benefits from 30 years of service to 28 years of service as a certified correctional officer regardless of age and allows for a Teacher and State Employee Retention Incentive Program. This program allows a member of the retirement system to retire but continue to work for a period of time not to exceed five years. During this period of time, the retirement benefit is paid into special account alone with any cost-of-living increases granted, until the employee terminates employment. Then the retiree receives a lump sum payment of balance of special account and begins to receive retirement benefits on monthly basis. Also, during this period, the retirement system continues to receive employer contributions, but no employee contributions, and the employee earns no additional retirement service.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT ON STATE: Teacher and State Employee Retention Incentive Program
Retirement System Actuary: Buck Consultants estimates the cost for the Retention Incentive Program will increase by .37% of the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$26.5	\$28.1	\$29.8	\$31.6	\$33.4
Highway Fund	\$ 1.4	\$ 1.4	\$ 1.5	\$ 1.6	\$ 1.7
Receipt Funds	<u>\$ 8.0</u>	<u>\$ 8.4</u>	<u>\$ 8.9</u>	<u>\$ 9.3</u>	<u>\$ 9.8</u>
Total Cost	\$35.9	\$38.0	\$40.2	\$42.5	\$44.9

General Assembly Actuary: Hartman & Associates estimates a cost ranging from .18% to a saving of .21% depending on the number of participants in the Retention Incentive Program. This is based on the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$12.9-(\$15.1)	\$13.7-(\$15.9)	\$14.5-(\$16.9)	\$15.4-(\$17.9)	\$16.3-(\$18.9)
Highway Fund	\$ 0.7 - (\$0.8)	\$ 0.7 - (\$0.8)	\$ 0.7 - (\$0.9)	\$ 0.7 - (\$ 0.9)	\$ 0.7 - (\$1.0)
Receipt Funds	<u>\$3.9-(\$4.5)</u>	<u>\$4.1-(\$4.8)</u>	<u>\$4.3 -(\$5.0)</u>	<u>\$4.5 -(\$5.3)</u>	<u>\$4.8-(\$5.6)</u>
Total	\$17.4-(\$20.4)	\$18.5-(\$21.6)	\$19.5-(\$22.8)	\$20.7-(\$24.1)	\$21.9-(\$25.5)

Teachers' and State Employee's Retirement System: Estimated cost to drop retirement requirement from 30 years to 28 years.

Retirement System Actuary: Buck Consultants estimates the cost to be 1.23% of the payroll of all members of the Teachers' and State Employee's Retirement System.

(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$88.2	\$93.5	\$99.0	\$104.9	\$111.2
Highway Fund	\$ 4.5	\$ 4.8	\$ 5.1	\$ 5.4	\$ 5.7
Receipt Funds	<u>\$ 26.6</u>	<u>\$28.0</u>	<u>\$29.5</u>	<u>\$ 31.0</u>	<u>\$ 32.7</u>
TOTAL COST	\$119.3	\$126.2	\$133.6	\$141.3	\$149.5

General Assembly Actuary: Hartman & Associates estimates the cost to be 1.3% of the payroll of all members of the Teachers' and State Employee's Retirement System.


(in millions)	2001-02	2002-03	2003-04	2004-05	2005-06
General Fund	\$ 93.2	\$ 98.8	\$ 104.7	\$110.9	\$117.5
Highway Fund	\$ 4.8	\$ 5.0	\$ 5.3	\$ 5.7	\$ 6.0
Receipt Funds	<u>\$ 28.1</u>	<u>\$ 29.6</u>	<u>\$ 31.2</u>	<u>\$ 32.8</u>	<u>\$ 734.6</u>
TOTAL COST	\$126.1	\$133.4	\$144.2	\$149.4	\$158.1

ASSUMPTIONS AND METHODOLOGY: Teacher's & State Employees' Retirement System

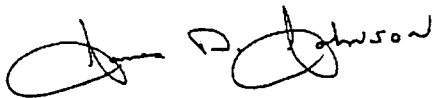
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 1999 actuarial valuation of the fund. The data included 285,784 active members with an annual payroll of \$8.4 billion and 102,939 retired members in 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: May 29, 2001

BUCK CONSULTANTS

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

May 29, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1388

House Bill 1022

Dear Mr. Williamson:

We have received your letter of April 11 regarding proposed legislation which affects the Teachers' and State Employees' Retirement System.

This Bill appears to encourage retirement by providing unreduced service retirement benefits to members after 28 years of creditable service (currently 30). This legislation also amends the calculation of reduced retirement benefits by changing the determination of the reduction to 5% times the difference between 28 years (currently 30) and the creditable service at retirement.

This Bill also appears to create a Teacher and State Employee Retention Incentive Program (a deferred retirement option plan) whereby a participant retires for retirement purposes only and for employment purposes continues to be an active employee. Under this program, the participants deferred retirement allowance is calculated on the basis of the member's AFC and service credits at the time the program period begins. The program participant agrees to continue employment for a period not to exceed five years.

During the specified program period, the payment of the member's normal retirement benefit is deferred and remains in the System's trust fund. No interest is paid on the deferred monthly benefits during the specified program period. The employer continues to pay to the System the employer contribution at the same rate paid for active members with respect to any program participant it employs. A program participant makes no further employee contributions and is not eligible for group life insurance benefits or disability retirement benefits.

Upon termination of employment, the member will receive the balance in the member's program account by either a lump sum distribution or, to the extent permitted by law, a tax-sheltered rollover. Of course, the member will begin receiving the previously determined normal retirement benefits plus any applicable cost-of-living adjustments granted during the program period.

Mr. Michael L. Williamson
May 29, 2001
Page 2

The cost of 28-year retirement is estimated to be 1.23% of payroll based on the December 31, 1999 valuation. The cost of the DROP in conjunction with 28-year retirement is 0.37% of payroll based on the December 31, 1999 valuation assuming that an additional 40% of members less than age 60 retire each year. The total cost of this proposal is 1.60% of payroll.

As a technical observation, subsection (e) of Section 4 of the Bill is not clear as to whether the Retirement System or the employer is responsible for the State's contribution for hospital/medical coverage and that subsection (g) is not clear relative to the benefits payable a beneficiary in the event a program participant dies within the program period.

There is no empirical evidence that DROP's actually defer retirement over the long term. However, there is a significant administrative burden for the implementation of DROP plans on the staff and the computer systems that are utilized. There appears to be no funding mechanism for the increase in administrative costs. Additionally, there is no funding provision in this Bill.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq

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00387-0001 RET03/180

BUCK
CONSULTANTS

05/28/2001 14:02 3367312583 HARTMAN ASSOCIATES L
HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, PSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

May 28, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1022: An Act to Allow Members of the TSERS to
Retire with Unreduced Benefits After Completing Twenty-Eight
Years of Service and to Establish a Retention Incentive
Program

Dear Mr. Moore:

This bill amends G.S. 135-5 to modify the retirement provisions in the Teachers' and State Employees' Retirement System. Currently, members, other than law enforcement officers, may receive an unreduced retirement allowance upon attainment of age 65 and completion of 5 years of service, attainment of age 60 and completion of 25 years of service, or at any age upon completion of 30 years of service. Law enforcement officers may receive an unreduced retirement allowance upon attainment of age 55 and completion of 5 years of service or at any age upon completion of 30 years of service. This act reduces the 30 year of service requirement and provides that any member may retire with an unreduced allowance at any age with 28 years of service.

This act also adds a new section, G.S. 135-18.9, to create a Retention Incentive Program, or Deferred Retirement Option Program (DROP). Under this program, a member who is eligible for service retirement would be allowed to continue employment for up to five years. The member's retirement allowance would be calculated based on his service and average final compensation at the time he enters the program. During the period of program participation, receipt of the member's benefit is deferred and placed in an account within the System's trust fund on behalf of the member. No interest is paid on the deferred benefit, and no employee contributions are required. At the end of the period of program participation, the previously determined retirement allowance, plus any applicable cost-of-living increases declared

Mr. Stanley Moore
May 28, 2001

during the period, becomes payable. The balance in the member's account is payable as a lump-sum. If a member dies during the program period, his beneficiary receives the balance in his account.

This act becomes effective July 1, 2001 and applies to members retiring on or after that date.

Changing the service requirement for an unreduced retirement allowance to 28 years would increase both the employer's normal contribution rate and the accrued liability contribution. The estimated total cost expressed as a percentage of payroll, is an increase of 1.30% of pay. This corresponds to a total annual increase in employer contributions for the fiscal year beginning July 1, 2001 of approximately \$125.9 million and provides amortization of the additional unfunded accrued liability over a 9 year period.

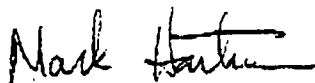
The financial impact of the DROP Program on the Plan depends upon which members elect to participate in DROP. Those electing this option may be either (i) employees who would have retired without the DROP program but elected to continue their employment, or (ii) employees who would have continued in employment without the DROP option. The estimated cost/(savings) to the TSERS for a range of splits between the above groups is shown below:

<u>% of DROP Participants who would have retired</u>	<u>Cost of DROP as % of Payroll</u>
10%	0.18%
50	(0.02)
90	(0.21)

These estimates are based on the actuarial valuations and experience investigations prepared as of December 31, 1999. The DROP projections assume that 20% of the members eligible to participate in the DROP option elect to do so.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

Additional State DROP Information
Pensions and Retirement 6/13/01

Arkansas:

- Kelle Noggole, Executive Director of School Administrators in Arkansas, noted the following about their DROP Program:
 - Very popular, good system, and is Revenue Neutral
 - Has been in place for about 6 years
 - There is not a limit on a cap after you retire, but they are trying to get legislation to where a sunset of 10 years would occur.
 - Said that it has retained administrator and teachers.
 - Surprised that there hasn't been more opposition

Florida:

- The Executive Director of the Florida Association of School Administrators and noted that:
 - 1998 was the first year it was implemented
 - Their DROP program was amended last year to have a sunset on the number of years you can 'double dip'-their cap is 5 years.
 - In their system, after you hit 30 years, you have 1-year to decide whether or not you want to participate in the DROP program, and if you decide not to, you can not participate at all.
 - He said that for the teachers and administrators, this program has been a 'godsend.' And works well. He also noted that a lot of administrators have not participated because there has been some doubt cast because you have to submit your resignation 5 years before you retire.
 - Florida's retirement system is healthy and actually has a surplus of \$10 billion!
- Doug Cherry of the Retirement and Policy Division in Florida noted that:
 - At last count, there were 600,000 total in the retirement membership and over 30,000 have participated in the DROP program. Out of that, 6,000 have completed the DROP program and 24,000 still remain in the membership.
 - As of this month, 27,000 are participating in the program and it is wildly successful.

National Studies:

- Will Keating, Administrative Officer for the National Association of State Retirement Administrators and Debby Keller, Research Analyst for Colorado's Public Employee's Retirement Association, both spoke in support of national DROP Programs as an analysis with comparative data.

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Additional State DROP Information
Pensions and Retirement 6/13/01

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 - As of this month, 27,000 are participating in the program and it is wildly successful.

National Studies:

- Will Keating, Administrative Officer for the National Association of State Retirement Administrators and Debby Keller, Research Analyst for Colorado's Public Employee's Retirement Association, both spoke in support of national DROP Programs as an analysis with comparative data.

###

Handout by Representative Goodman

Brandon Thomas, bthomas@seanc.org
Ardis Watkins, awatkins@seanc.org
Sherry Melton, smelton@seanc.org
SEANC Legislative Affairs
(919) 833 - 6436

Issue:

House Bill 1022 - 28-Year Retirement/Retention Incentive

ATTACHMENT #6

Background:

North Carolina law allows retired teachers to return to work after twelve months with no cap on income, and there are currently proposals that would reduce or remove the twelve-month waiting period. If a state employee returns to work for the State after retirement, there is a cap on the amount that he or she can earn, and if this amount is exceeded, retirement benefits would be lost.

Response:

The State should be making an effort to retain its qualified state employees. House Bill 1022 allows state employees, as well as teachers, to retire for purposes of the retirement system, with their normal retirement benefit calculated on the basis of average final compensation and service credit. The employee can then return to work for a period not to exceed five years. In short, the employee retires and begins accumulating retirement benefits without having to terminate employment, and there is no earnings cap. A participant in the Teacher and State Employee Retention Incentive Program makes no further employee contributions to the System, but will retain the same employment status and rights that they held before retirement, remaining eligible for all active state employee benefits (excluding accrual of service credit during the program period, and eligibility for group life insurance and disability retirement benefits). The retirement benefits are deferred into a trust fund until the employee stops working entirely. At this point, the employee will begin receiving his or her monthly retirement benefit plus any cost-of-living increases granted during the period. The balance of the trust fund can then be distributed to the employee by either lump sum payment, with appropriate taxes paid, or a tax-sheltered rollover into an eligible plan.

- * North Carolina's annual attrition rate is 15 percent, with numerous agencies facing even higher percentages.
- * An estimated 12,289 members of the Teachers' and State Employees' Retirement system - which includes employees of State government, public schools, universities, community colleges and law enforcement - are eligible to retire July 1, 2001, and there are currently no real incentives to keep working.
- * House Bill 1022, while offering an earlier retirement, encourages experienced employees, those with ten to twenty years of service, to continue working for the State and obtain their retirement benefits. It also provides a substantial incentive for employees eligible to retire to continue active employment, thereby reducing the number of experienced workers the State unnecessarily loses each year.

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT JUNE 20, 2001

The House Committee on PENSIONS AND RETIREMENT met on Wednesday, June 20, 2001 at noon in Room 415 of the Legislative Office Building. Members present were Representatives Barefoot and Cox, Co-chairs; Representatives McCombs, Hensley, Rogers, Starnes, Tolson, Wilson, G., and Yongue; and Ex Officio Member Representative Hackney. The Visitor Registration Sheet is attached. Other attachments are listed and have been made a part of the Minutes.

Representative Cox called the meeting to order and introduced the pages serving the committee; Lauren Ferguson of Mecklenburg County, sponsored by Representative McMahan, Drew Engleton of Craven County, sponsored by Representative Underhill, and Morgan Bowling of Jackson County, sponsored by Representative Haire.

HOUSE BILL 1022, 28-year Retirement/Retention Incentive, sponsored by Representative Goodwin, was before the committee, continued from the last meeting. Karen Cochrane-Brown, Committee Counsel, explained that a committee substitute had been formed to create a study. She explained that members of the teachers' and state employees' retirement system would be included in the 28-year retirement program to be studied. The committee substitute was formatted similarly to House Bill 79, and the study bills would be combined into one study concerning retirement.

Representative McCombs moved to adopt the proposed committee substitute, motion carried. He moved for a favorable report as to the committee substitute bill, unfavorable to original bill, and that the committee substitute bill be re-referred to the committee on RULES, CALENDAR, AND OPERATIONS OF THE HOUSE. The motion carried.

HOUSE BILL 1390, Retirement Withdrawal Service, was before the committee for consideration. Representative Nesbitt, bill sponsor, was recognized to explain the bill. Representative Yongue introduced a proposed committee substitute and moved for its adoption, motion carried. Representative Nesbitt explained that the bill eliminates the July 1, 1974 cutoff to individuals who withdrew their contributions to the teachers' and state employees' retirement system and then returned to service. Those individuals could pay a sum to cover the withdrawal and interest and have the prior service years reinstated for retirement purposes. The committee substitute would change the number years of returned service from 10 to 5 and deletes the portion regarding payment of interest and replaces it with a requirement that the interest to be paid is interest compounded annually at the rate of 6.5% for each calendar year from the year of withdrawal to the year of repayment.

Stanley Moore, Committee Counsel, explained that prior to July 1, 1974, if individuals withdrew their retirement money and later returned to service, they could not claim the

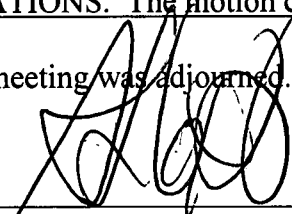
years that they had withdrawn. As of July 1, 1974, individuals could repay their retirement under a "half-cost" method, of the amount they withdrew plus 6.5% interest each year. More recently, individuals were given the opportunity within 5 to 10 years to purchase it under the full actuarial cost, from 10 to 13 years to purchase it under some other method, half or full cost, and after 13 it goes back to full actuarial cost. He explained the bill before the committee eliminates these provisions. It includes that once a person comes back to work and works for 5 years they pay the amount withdrawn plus 6.5% interest per year and their service is restored.

Representative Starnes asked how many state employees have bought back their retirement under the present system. Stanley Moore answered about 300 last year. Representative Starnes then asked a representative from the Treasurer's Office about the actuarial note that states the cost to the retirement system could be substantial. Stanley Moore explained the revised actuarial note stating that the estimated cost would be about \$2.6 million per year. The actuarial note also stated that there would be a greater influx of people purchasing their withdrawn retirement due to the simplification. Mike Williamson, of the Treasurer's Office, stated their support for simplification of the existing procedure.

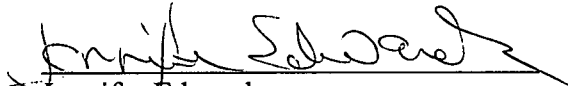
Representative McCombs asked Karen Cochrane-Brown if those that have paid the entire cost could sue the state to get their money back. She responded that the state could claim that the benefits have been paid, and they have received the service that they purchased.

Representative Starnes moved for a favorable report as to the committee substitute bill, unfavorable to original bill, and that the committee bill be re-referred to the committee on APPROPRIATIONS. The motion carried.

The meeting was adjourned.



Representative Cox
Presiding Committee Chair



Jennifer Edwards
Committee Assistant

Adrian Lovelace
Transcribing Committee Assistant

Attachments:

Committee Meeting Agenda

Visitor Registration Sheet

House Bill 1022 and Committee Substitute and HB 1022 Bill Summary

House Bill 1022 Committee Report

House Bill 1390 and Committee Substitute

House Bill 1390 Bill Summary

House Bill 1390 Actuarial Note

House Bill 1390 Committee Report

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

AGENDA

June 20, 2001
Room 415 LOB
12:00 Noon

OPENING REMARKS

Representative Leslie Cox, Chairman Presiding
Pensions and Retirement Committee

AGENDA ITEMS

- HB 1022 28-YEAR RETIREMENT/RETENTION INCENTIVE**
Representative Wayne Goodwin, Sponsor
- HB 1390 RETIREMENT WITHDRAWAL SERVICE**
Representative Martin Nesbitt, Sponsor

ADJOURNMENT

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

June 20, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

BRANDON THOMAS	SEANC
Frank Lewis	OSBPM
Lubin Prevatt	nc citizen, State Employee
Charles Cromer	NCA TL
Russ Eubanks	AOC
Steve Hoffman	NCSBA
Bill Connolly	N.C. Citizen - State Employee
Ardais Watkins	SEANC
Carol Lawen	EGHS
John [Signature]	NCSA
Jan [Signature]	NCA SA

VISITOR REGISTRATION SHEET

PENSIONS AND RETIREMENT

June 20, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME _____

FIRM OR AGENCY AND ADDRESS[illegible]

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1022

Short Title: 28-Year Retirement/Retention Incentive.

(Public)

Sponsors: Representatives Goodwin; and Buchanan.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW MEMBERS OF THE TEACHERS' AND STATE
EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED
BENEFITS AFTER TWENTY-EIGHT YEARS OF SERVICE AND TO
ESTABLISH A RETENTION INCENTIVE PROGRAM FOR MEMBERS OF THE
RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5(b18) reads as rewritten:

"(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000.
2000, but Before July 1, 2001.— Upon retirement from service in accordance with
subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2001, a member
shall receive the following service retirement ~~allowance~~ allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

- a. If the member's service retirement date occurs on or after his
55th birthday, and completion of five years of creditable service
as a law enforcement officer, or after the completion of 30 years
of creditable service, the allowance shall be equal to one and
eighty-one hundredths percent (1.81%) of his average final
compensation, multiplied by the number of years of his
creditable service.
- b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and
prior to the completion of 30 years of creditable service, his
retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S. 135-5(b18)(1)a. reduced by one-third of one percent ($\frac{1}{3}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
 - b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
 - c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
 1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or
3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b18)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 2. G.S. 135-5 is amended by adding a new subsection to read:

"(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2001.
– Upon retirement from service in accordance with subsection (a) or (a1) above, on or
after July 1, 2001, a member shall receive the following service retirement allowance:

(1) A member who is a law enforcement officer or an eligible former law
enforcement officer shall receive a service retirement allowance
computed as follows:

a. If the member's service retirement date occurs on or after his
55th birthday, and completion of five years of creditable service
as a law enforcement officer, or after the completion of 28 years
of creditable service, the allowance shall be equal to one and
eighty-one hundredths percent (1.81%) of his average final
compensation, multiplied by the number of years of his
creditable service.

b. If the member's service retirement date occurs on or after his
50th birthday and before his 55th birthday with 15 or more
years of creditable service as a law enforcement officer and
prior to the completion of 28 years of creditable service, his
retirement allowance shall be equal to the greater of:

1. The service retirement allowance payable under G.S.
135-5(b19)(1)a. reduced by one-third of one percent (1/3
of 1%) thereof for each month by which his retirement
date precedes the first day of the month coincident with
or next following the month the member would have
attained his 55th birthday; or

2. The service retirement allowance as computed under
G.S. 135-5(b19)(1)a. reduced by five percent (5%) times
the difference between 28 years and his creditable
service at retirement.

(2) A member who is not a law enforcement officer or an eligible former
law enforcement officer shall receive a service retirement allowance
computed as follows:

- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 28 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 28 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
 2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 28 years and his creditable service at retirement; or
 3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.
- d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5(m) reads as rewritten:

1 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
2 principal beneficiary designated to receive a return of accumulated contributions shall
3 have the right to elect to receive in lieu thereof the reduced retirement allowance
4 provided by Option 2 of subsection (g) above computed by assuming that the member
5 had retired on the first day of the month following the date of his death, provided that
6 the following conditions apply:

- 7 (1) a. The member had attained such age and/or creditable service to
8 be eligible to commence retirement with an early or service
9 retirement allowance, or
10 b. The member had obtained 20 years of creditable service in
11 which case the retirement allowance shall be computed in
12 accordance with ~~G.S. 135-5(b18)(1)b.~~ G.S. 135-5(b19)(1)b. or
13 ~~G.S. 135-5(b18)(2)c.,~~ G.S. 135-5(b19)(2)c., notwithstanding the
14 requirement of obtaining age 50.
15 (2) The member had designated as the principal beneficiary to receive a
16 return of his accumulated contributions one and only one person who
17 was living at the time of his death.
18 (3) The member had not instructed the Board of Trustees in writing that he
19 did not wish the provisions of this subsection to apply.

20 For the purpose of this benefit, a member is considered to be in service at the date of
21 his death if his death occurs within 180 days from the last day of his actual service. The
22 last day of actual service shall be determined as provided in subsection (l) of this
23 section. Upon the death of a member in service, the surviving spouse may make all
24 purchases for creditable service as provided for under this Chapter for which the
25 member had made application in writing prior to the date of death, provided that the
26 date of death occurred prior to or within 60 days after notification of the cost to make
27 the purchase. The term "in service" as used in this subsection includes a member in
28 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
29 Chapter."

30 **SECTION 4.** Article 1 of Chapter 135 of the General Statutes is amended by
31 adding a new section to read:

32 **"§ 135-18.9. Retention Incentive Program.**

33 (a) A member who is eligible for service retirement under this Chapter and
34 complies with the requirements of this section may elect to participate in the Teacher
35 and State Employee Retention Incentive Program. A member electing to participate in
36 the program retires for purposes of the System, and the member's normal retirement
37 benefit is calculated on the basis of the member's average final compensation and
38 service credit at the time the program period begins. The program participant shall agree
39 to continue employment with an employer participating in the System for a program
40 period, not to exceed five years. The member shall notify the System before the
41 beginning of the program period. Participation in the program does not guarantee
42 employment for the specified program period.

43 (b) During the specified program period, receipt of the member's normal
44 retirement benefit is deferred. The member's deferred monthly payment shall be placed

1 in the System's trust fund on behalf of the member. No interest shall be paid on the
2 member's deferred monthly benefit placed in the trust fund during the specified program
3 period.

4 (c) During the specified program period, the employer shall pay to the System
5 the employer contribution for active members prescribed by law with respect to any
6 program participant it employs, regardless of whether the program participant is a part-
7 time employee, a temporary employee, or a full-time employee. If an employer who is
8 obligated to the System pursuant to this subsection fails to pay the amount due, as
9 determined by the System, the amount shall be deducted from any funds payable to the
10 employer by the State.

11 (d) A program participant is retired from the System as of the beginning of the
12 program period. A program participant makes no further employee contributions to the
13 System, accrues no service credit during the program period, and is not eligible to
14 receive group life insurance benefits or disability retirement benefits. Accrued annual
15 leave and sick leave used in any manner in the calculation of the program participant's
16 retirement benefits is deducted from the amount of that leave accrued by the participant.

17 (e) A program participant is retired for retirement purposes only. For
18 employment purposes, a program participant is considered to be an active employee,
19 retaining all other rights and benefits of an active employee and is not subject to the
20 earnings limitation of G.S. 135-3(8)c. during the program period.

21 (f) Upon termination of employment either during or at the end of the program
22 period, the member shall receive the balance in the member's program account by
23 electing one of the following distribution alternatives:

24 (1) A lump-sum distribution, paying appropriate taxes; or

25 (2) To the extent permitted by law, a tax-sheltered rollover into an eligible
26 plan;

27 The member also shall receive the previously determined normal retirement benefits
28 based upon the member's average final compensation and service credit at the time the
29 program period began, plus any applicable cost-of-living increases declared during the
30 program period. The program participant is thereafter subject to the earning limitation
31 of G.S. 135-3(8)c.

32 (g) If a program participant dies during the specified program period, the
33 member's designated beneficiary shall receive the balance in the member's program
34 account by electing one of the distribution alternatives set forth in subsection (f) of this
35 section. In accordance with the form of System benefit selected by the member at the
36 time the program commenced, the member's designated beneficiary shall receive either
37 a survivor benefit or a refund of contributions from the member's System account.

38 (h) If a program participant fails to terminate employment with an employer
39 participating in the System within one month after the end of the specified program
40 period, the member shall receive the previously determined normal retirement benefits
41 based upon the member's average final compensation and service credit at the time the
42 program began, plus any applicable cost-of-living increases declared during the
43 program period. The program participant is thereafter subject to the earning limitation
44 of G.S. 135-3(8)c. The program participant also shall receive the balance in the

1 member's program account by selecting one of the distribution alternatives set forth in
2 subsection (f) of this section.

3 (i) A member is not eligible to participate in the program if the member has
4 participated previously in and received a benefit under this program or any other state
5 retirement system."

6 **SECTION 5.** Section 4 of this act becomes effective July 1, 2001, and
7 applies to persons eligible to retire from the Teachers' and State Employees' Retirement
8 System on or after that date. The remainder of this act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1022
PROPOSED COMMITTEE SUBSTITUTE H1022-CSRO-28 [v.2]

6/20/2001 10:21:12 AM

Short Title: Study 28-Year Retirement/Retention Incentives. (Public)

Sponsors:

Referred to:

April 9, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO ESTABLISH THE LEGISLATIVE STUDY COMMISSION ON EARLY
3 RETIREMENT AND RETENTION INCENTIVES FOR TEACHERS AND
4 STATE EMPLOYEES.

5 The General Assembly of North Carolina enacts:

6 **SECTION 1.(a)** There is established the Legislative Study Commission on
7 Early Retirement and Retention Incentives for Teachers and State Employees. The
8 Study Commission shall study the feasibility of providing for a twenty-eight-year
9 retirement for members of the Teachers' and State Employees' Retirement System and
10 of establishing a Retention Incentive Program for members of the Retirement System.
11 In conducting the study, the Study Commission shall consider the benefits to
12 employees, the cost, and the number of positions likely to be affected.

13 **SECTION 1.(b)** The Study Commission shall consist of 10 members
14 appointed as follows:

15 (1) Five members appointed by the President Pro Tempore of the Senate,
16 all five shall be members of the Senate at the time of appointment, one
17 individual shall have served within the last two years as a chair,
18 cochair, or vice chair of the Senate Committee on Pensions and
19 Retirement and Aging.

20 (2) Five members appointed by the Speaker of the House of
21 Representatives, all five shall be members of the House of
22 Representatives at the time of appointment, one individual shall have
23 served within the last two years as a chair, cochair, or vice chair of the
24 House of Representatives Committee on Pensions and Retirement.

25 **SECTION 1.(c)** The President Pro Tempore of the Senate and the Speaker
26 of the House of Representatives shall each designate a cochair of the Study Commission
27 from their appointees.

28 **SECTION 1.(d)** With the prior approval of the Legislative Services
29 Commission, the Legislative Services Officer shall assign professional staff to assist in

1 the work of the Legislative Study Commission on Early Retirement and Retention
2 Incentives for Teachers and State Employees. With the prior approval of the Legislative
3 Services Commission, the Study Commission may hold its meetings in the State
4 Legislative Building or the Legislative Office Building.

5 **SECTION 1.(e)** The Study Commission shall submit a final written report of
6 its findings and recommendations on or before the convening of the 2002 Regular
7 Session of the 2001 General Assembly. All reports shall be filed with the President Pro
8 Tempore of the Senate, the Speaker of the House of Representatives, and the Legislative
9 Librarian. Upon filing its final report, the Study Commission shall terminate.

10 **SECTION 1.(f)** Members of the Study Commission shall be paid per diem,
11 subsistence, and travel allowances at the rate established in G.S. 120-3.1.

12 **SECTION 1.(g)** All State departments and agencies shall cooperate with the
13 Study Commission and, upon request, shall furnish to the Study Commission and its
14 staff any information in their possession or available to them.

15 **SECTION 2.** From funds appropriated to the General Assembly for the
16 2001-2003 fiscal biennium, the Legislative Services Commission shall allocate funds
17 for the expenses of the Legislative Study Commission on Early Retirement and
18 Retention Incentives for Teachers and State Employees.

19 **SECTION 3.** This act is effective when it becomes law.
20
21



HOUSE BILL 1022: 28-Year Retirement/Retention Incentive.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: May 30, 2001
Version: First Edition

Introduced by: Rep. Goodwin
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 1022 amends the law governing the Teachers' and State Employees' Retirement System to allow members to retire with unreduced benefits after 28 years of service, rather than 30 years, as is currently required. The bill also establishes a Retention Incentive Program for members of the System.*

CURRENT LAW:

Under current law, a member of the Teachers' and State Employees' Retirement System is not eligible for an unreduced retirement allowance, without regard to the member's age, until the member has completed at least 30 years of creditable service.

In addition, if the member retires and returns to State employment, the member is subject to an earnings limitation, which when reached, causes the retirement allowance to be suspended.

BILL ANALYSIS:

This bill would allow members who retire on or after July 1, 2001, to retire at any age with 28 years of creditable service.

The bill also creates a Retention Incentive Program, which allows a member to retire but continue to work for a period of up to five years. During this time the member's retirement allowance would be deferred until the member terminates employment. At that time, the retiree could elect to receive a lump sum payment consisting the member's deferred retirement allowance plus any cost of living increases that may have been granted, or roll over the funds into a tax-sheltered plan, to the extent permitted by federal law. The retiree does not receive earn interest on the deferred payments which are held in a special account while the retiree continues to work. During the period in which the retiree continues to work, the retiree would not pay employee contributions to the System and would not earn service credit. However, the System would continue to receive employer contributions.

The Retention Incentive Program would become effective July 1, 2001, and apply to persons eligible to retire on or after that date. The remainder of the act would become effective July 1, 2001.

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

*file
minutes
P. & R.
June 20, 2001*

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☐ Committee Substitute for

H.B. 1022 A BILL TO BE ENTITLED AN ACT TO ALLOW MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM TO RETIRE WITH UNREDUCED BENEFITS AFTER TWENTY-EIGHT YEARS OF SERVICE AND TO ESTABLISH A RETENTION INCENTIVE PROGRAM FOR MEMBERS OF THE RETIREMENT SYSTEM.

☐ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☒ With a favorable report as to committee substitute bill, ☒ which changes the title, unfavorable as to original bill, and recommendation that the committee substitute bill be re-referred to the Committee on RULES.

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1022
PROPOSED COMMITTEE SUBSTITUTE H1022-CSRO-28 [v.2]

6/20/2001 10:21:12 AM

Short Title: Study 28-Year Retirement/Retention Incentives.

(Public)

Sponsors:

Referred to:

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO ESTABLISH THE LEGISLATIVE STUDY COMMISSION ON EARLY
RETIREMENT AND RETENTION INCENTIVES FOR TEACHERS AND
STATE EMPLOYEES.

The General Assembly of North Carolina enacts:

SECTION 1.(a) There is established the Legislative Study Commission on
Early Retirement and Retention Incentives for Teachers and State Employees. The
Study Commission shall study the feasibility of providing for a twenty-eight-year
retirement for members of the Teachers' and State Employees' Retirement System and
of establishing a Retention Incentive Program for members of the Retirement System.
In conducting the study, the Study Commission shall consider the benefits to
employees, the cost, and the number of positions likely to be affected.

SECTION 1.(b) The Study Commission shall consist of 10 members
appointed as follows:

(1) Five members appointed by the President Pro Tempore of the Senate,
all five shall be members of the Senate at the time of appointment, one
individual shall have served within the last two years as a chair,
cochair, or vice chair of the Senate Committee on Pensions and
Retirement and Aging.

(2) Five members appointed by the Speaker of the House of
Representatives, all five shall be members of the House of
Representatives at the time of appointment, one individual shall have
served within the last two years as a chair, cochair, or vice chair of the
House of Representatives Committee on Pensions and Retirement.

SECTION 1.(c) The President Pro Tempore of the Senate and the Speaker
of the House of Representatives shall each designate a cochair of the Study Commission
from their appointees.

SECTION 1.(d) With the prior approval of the Legislative Services
Commission, the Legislative Services Officer shall assign professional staff to assist in

1 the work of the Legislative Study Commission on Early Retirement and Retention
2 Incentives for Teachers and State Employees. With the prior approval of the Legislative
3 Services Commission, the Study Commission may hold its meetings in the State
4 Legislative Building or the Legislative Office Building.

5 **SECTION 1.(e)** The Study Commission shall submit a final written report of
6 its findings and recommendations on or before the convening of the 2002 Regular
7 Session of the 2001 General Assembly. All reports shall be filed with the President Pro
8 Tempore of the Senate, the Speaker of the House of Representatives, and the Legislative
9 Librarian. Upon filing its final report, the Study Commission shall terminate.

10 **SECTION 1.(f)** Members of the Study Commission shall be paid per diem,
11 subsistence, and travel allowances at the rate established in G.S. 120-3.1.

12 **SECTION 1.(g)** All State departments and agencies shall cooperate with the
13 Study Commission and, upon request, shall furnish to the Study Commission and its
14 staff any information in their possession or available to them.

15 **SECTION 2.** From funds appropriated to the General Assembly for the
16 2001-2003 fiscal biennium, the Legislative Services Commission shall allocate funds
17 for the expenses of the Legislative Study Commission on Early Retirement and
18 Retention Incentives for Teachers and State Employees.

19 **SECTION 3.** This act is effective when it becomes law.
20
21

file

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1022
PROPOSED COMMITTEE SUBSTITUTE H1022-PCS7249-RO-28

Short Title: Study 28-Year Retirement/Retention Incentives.

(Public)

Sponsors:

Referred to:

April 9, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO ESTABLISH THE LEGISLATIVE STUDY COMMISSION ON EARLY
3 RETIREMENT AND RETENTION INCENTIVES FOR TEACHERS AND
4 STATE EMPLOYEES.

5 The General Assembly of North Carolina enacts:

6 SECTION 1.(a) There is established the Legislative Study Commission on
7 Early Retirement and Retention Incentives for Teachers and State Employees. The
8 Study Commission shall study the feasibility of providing for a 28-year retirement for
9 members of the Teachers' and State Employees' Retirement System and of establishing
10 a Retention Incentive Program for members of the Retirement System. In conducting
11 the study, the Study Commission shall consider the benefits to employees, the cost, and
12 the number of positions likely to be affected.

13 SECTION 1.(b) The Study Commission shall consist of 10 members
14 appointed as follows:

15 (1) Five members appointed by the President Pro Tempore of the Senate;
16 all five shall be members of the Senate at the time of appointment; one
17 individual shall have served within the last two years as a chair,
18 cochair, or vice-chair of the Senate Committee on Pensions and
19 Retirement and Aging.

20 (2) Five members appointed by the Speaker of the House of
21 Representatives; all five shall be members of the House of
22 Representatives at the time of appointment; one individual shall have
23 served within the last two years as a chair, cochair, or vice-chair of the
24 House of Representatives Committee on Pensions and Retirement.

25 SECTION 1.(c) The President Pro Tempore of the Senate and the Speaker
26 of the House of Representatives shall each designate a cochair of the Study Commission
27 from their appointees.

28 SECTION 1.(d) With the prior approval of the Legislative Services
29 Commission, the Legislative Services Officer shall assign professional staff to assist in

1 the work of the Legislative Study Commission on Early Retirement and Retention
2 Incentives for Teachers and State Employees. With the prior approval of the Legislative
3 Services Commission, the Study Commission may hold its meetings in the State
4 Legislative Building or the Legislative Office Building.

5 **SECTION 1.(e)** The Study Commission shall submit a final written report of
6 its findings and recommendations on or before the convening of the 2002 Regular
7 Session of the 2001 General Assembly. All reports shall be filed with the President Pro
8 Tempore of the Senate, the Speaker of the House of Representatives, and the Legislative
9 Librarian. Upon filing its final report, the Study Commission shall terminate.

10 **SECTION 1.(f)** Members of the Study Commission shall be paid per diem,
11 subsistence, and travel allowances at the rate established in G.S. 120-3.1.

12 **SECTION 1.(g)** All State departments and agencies shall cooperate with the
13 Study Commission and, upon request, shall furnish to the Study Commission and its
14 staff any information in their possession or available to them.

15 **SECTION 2.** From funds appropriated to the General Assembly for the
16 2001-2003 fiscal biennium, the Legislative Services Commission shall allocate funds
17 for the expenses of the Legislative Study Commission on Early Retirement and
18 Retention Incentives for Teachers and State Employees.

19 **SECTION 3.** This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1390

Short Title: Retirement Withdrawal Service.

(Public)

Sponsors: Representative Nesbitt.

Referred to: Pensions and Retirement.

April 26, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWAL SERVICE IN THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-4(k) reads as rewritten:

"(k) Notwithstanding any other provision of this Chapter, any person who withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S. 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover one half of the cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s), provided that he left service prior to July 1, 1974. withdrawal(s). Any person who leaves service after June 30, 1974, and who withdraws his contributions in accordance with G.S. 128-27(f) or G.S. 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s). These provisions shall apply equally to retired members who had attained 10 years of membership service prior to retirement. Cost as used in this subsection shall mean the amount of money required to provide additional retirement benefits based on service credit allowed at the time any adjustment to the service credit of a member is made.

1 Notwithstanding any provision to the contrary, a law enforcement officer who was
2 transferred from the Law Enforcement Officers' Retirement System to this Retirement
3 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
4 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
5 or G.S. 135-5(f) for non-law enforcement service and who has 10 years or more of
6 membership service standing to his credit may repay in a total lump sum the
7 accumulated contributions previously withdrawn with sufficient interest added thereto
8 to cover one-half the cost of providing such additional credits plus a fee to cover the
9 expense of handling which shall be determined by the Board of Trustees and receive
10 credit for the creditable service forfeited at the time of withdrawal."

11 **SECTION 2.** G.S. 135-4(m) is repealed.

12 **SECTION 3.** This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1390
PROPOSED COMMITTEE SUBSTITUTE H1390-PCS8228-LL-30

Short Title: Retirement Withdrawal Service.

(Public)

Sponsors:

Referred to:

April 26, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWAL SERVICE IN THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-4(k) reads as rewritten:

"(k) Notwithstanding any other provision of this Chapter, any person who withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S. 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 five years of membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover one half of the cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s), provided that he left service prior to July 1, 1974. interest compounded annually at the rate of six and one-half percent (6.5%) for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expense of handling which shall be determined by the Board of Trustees, and receive credit for the service forfeited at time of withdrawal. Any person who leaves service after June 30, 1974, and who withdraws his contributions in accordance with G.S. 128-27(f) or G.S. 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s). These provisions shall apply equally to retired members who had attained 10 five years of membership service prior to retirement. Cost as used in this subsection shall mean the amount of money required

1 ~~to provide additional retirement benefits based on service credit allowed at the time any~~
2 ~~adjustment to the service credit of a member is made.~~

3 Notwithstanding any provision to the contrary, a law enforcement officer who was
4 transferred from the Law Enforcement Officers' Retirement System to this Retirement
5 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
6 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
7 or G.S. 135-5(f) for non-law enforcement service and who has ~~10~~ five years or more of
8 membership service standing to his credit may repay in a total lump sum the
9 accumulated contributions previously withdrawn with ~~sufficient interest added thereto~~
10 ~~to cover one half the cost of providing such additional credits plus a fee to cover the~~
11 ~~expense of handling which shall be determined by the Board of Trustees and receive~~
12 ~~credit for the creditable service forfeited at the time of withdrawal.~~ interest compounded
13 annually at the rate of six and one-half percent (6.5%) for each calendar year from the
14 year of withdrawal to the year of repayment plus a fee to cover expense of handling
15 which shall be determined by the Board of Trustees, and receive credit for the service
16 forfeited at time of withdrawal."

17 **SECTION 2.** G.S. 135-4(m) reads as rewritten:

18 "(m) Notwithstanding any language to the contrary of any provision of this section,
19 or of any repealed provision of this section that was repealed with the inchoate and
20 accrued rights preserved, all repayments and purchases of service credits, allowed under
21 the provisions of this section or of any repealed provision of this section that was
22 repealed with inchoate and accrued rights preserved, must be made within three years
23 after the member first becomes eligible to make such repayments and purchases. Any
24 member who does not repay or purchase service credits within said three years after first
25 eligibility to make such repayments and purchases may, under the same conditions as
26 are otherwise required, repay or purchase service credits provided that the repayment or
27 purchase equals the full cost of the service credits calculated on the basis of the
28 assumptions used for purposes of the actuarial valuation of the system's liabilities and
29 shall take into account the additional retirement allowance arising on account of such
30 additional service credit commencing at the earliest age at which such member could
31 retire on an unreduced retirement allowance as determined by the Board of Trustees
32 upon the advice of the consulting actuary. Notwithstanding the foregoing provisions of
33 this subsection that provide for the purchase of service credits, the terms "full cost",
34 "full liability", and "full actuarial cost" include assumed annual post-retirement
35 allowance increases, as determined by the Board of Trustees, from the earliest age at
36 which a member could retire on an unreduced service allowance. Notwithstanding the
37 foregoing, on and after July 1, 2001, the provisions of this subsection shall not apply to
38 the repayment of contributions withdrawn pursuant to subsection (k) of this section."

39 **SECTION 3.** G.S. 135-4(x) is repealed.

40 **SECTION 4.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 1390
Committee Substitute Favorable 6/20/01

Short Title: Retirement Withdrawal Service.

(Public)

Sponsors:

Referred to:

April 26, 2001

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWAL SERVICE IN THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-4(k) reads as rewritten:

"(k) Notwithstanding any other provision of this Chapter, any person who withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S. 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of ~~10~~ five years of membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover one half of the cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s), provided that he left service prior to July 1, 1974. interest compounded annually at the rate of six and one-half percent (6.5%) for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expense of handling which shall be determined by the Board of Trustees, and receive credit for the service forfeited at time of withdrawal. ~~Any person who leaves service after June 30, 1974, and who withdraws his contributions in accordance with G.S. 128-27(f) or G.S. 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s).~~ These provisions shall apply equally to retired members who had attained ~~10~~ five years of membership service prior to retirement. Cost as used in this subsection shall mean the amount of money required

1 ~~to provide additional retirement benefits based on service credit allowed at the time any~~
2 ~~adjustment to the service credit of a member is made.~~

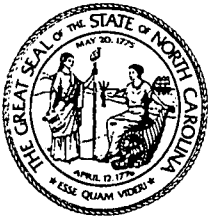
3 Notwithstanding any provision to the contrary, a law enforcement officer who was
4 transferred from the Law Enforcement Officers' Retirement System to this Retirement
5 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
6 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
7 or G.S. 135-5(f) for non-law enforcement service and who has ~~40~~ five years or more of
8 membership service standing to his credit may repay in a total lump sum the
9 accumulated contributions previously withdrawn with ~~sufficient interest added thereto~~
10 ~~to cover one-half the cost of providing such additional credits plus a fee to cover the~~
11 ~~expense of handling which shall be determined by the Board of Trustees and receive~~
12 ~~credit for the creditable service forfeited at the time of withdrawal.~~ interest compounded
13 annually at the rate of six and one-half percent (6.5%) for each calendar year from the
14 year of withdrawal to the year of repayment plus a fee to cover expense of handling
15 which shall be determined by the Board of Trustees, and receive credit for the service
16 forfeited at time of withdrawal."

17 **SECTION 2.** G.S. 135-4(m) reads as rewritten:

18 "(m) Notwithstanding any language to the contrary of any provision of this section,
19 or of any repealed provision of this section that was repealed with the inchoate and
20 accrued rights preserved, all repayments and purchases of service credits, allowed under
21 the provisions of this section or of any repealed provision of this section that was
22 repealed with inchoate and accrued rights preserved, must be made within three years
23 after the member first becomes eligible to make such repayments and purchases. Any
24 member who does not repay or purchase service credits within said three years after first
25 eligibility to make such repayments and purchases may, under the same conditions as
26 are otherwise required, repay or purchase service credits provided that the repayment or
27 purchase equals the full cost of the service credits calculated on the basis of the
28 assumptions used for purposes of the actuarial valuation of the system's liabilities and
29 shall take into account the additional retirement allowance arising on account of such
30 additional service credit commencing at the earliest age at which such member could
31 retire on an unreduced retirement allowance as determined by the Board of Trustees
32 upon the advice of the consulting actuary. Notwithstanding the foregoing provisions of
33 this subsection that provide for the purchase of service credits, the terms "full cost",
34 "full liability", and "full actuarial cost" include assumed annual post-retirement
35 allowance increases, as determined by the Board of Trustees, from the earliest age at
36 which a member could retire on an unreduced service allowance. Notwithstanding the
37 foregoing, on and after July 1, 2001, the provisions of this subsection shall not apply to
38 the repayment of contributions withdrawn pursuant to subsection (k) of this section."

39 **SECTION 3.** G.S. 135-4(x) is repealed.

40 **SECTION 4.** This act becomes effective July 1, 2001.



HOUSE BILL 1390: Retirement Withdrawal Service.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: June 13, 2001
Version: First Edition

Introduced by: Rep. Nesbitt
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *House Bill 1390 would amend the law governing the Teachers' and State Employees' Retirement System to allow members who withdrew from the System after June 30, 1974, to purchase the withdrawn service by paying one-half the cost of providing the additional credit plus an administrative fee, rather than the full cost as is currently required. The bill also would repeal the provision that requires a member to purchase service within three years of first becoming eligible to purchase the service.*

CURRENT LAW:

Under current law, a person who terminates membership in the System other than by death or retirement may withdraw his or her accumulated contributions from the System. If the person subsequently returns to service and completes at least ten years of membership service, that person may purchase the withdrawn service. If the service was withdrawn prior to July 1, 1974, the person must only repay an amount sufficient to cover one-half the cost of providing the additional credit plus an administrative fee. If the service was withdrawn after that date, the person must repay an amount sufficient to cover the full cost of providing the additional credit plus the fee.

If a person is eligible to purchase the credit at the lower cost, current law requires that the person repay the amount within three years of first becoming eligible to purchase the service credit. If the payment is not made within three years, the person may purchase the credit at the higher full cost.

BILL ANALYSIS:

This bill would eliminate the requirement that service withdrawn after July 1, 1974, may only be purchased at the full cost. It would allow all members to purchase withdrawn service at the rate now applied to members whose service was withdrawn prior to 1974.

The bill also repeals the provision that requires that members who are eligible to purchase service at the lower cost must do so within three years of first becoming eligible to purchase such service.

This act would become effective when it becomes law.



1390

H.B. _____

SESSION LAW _____

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWAL SERVICE IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

Introduced by Representative(s): Nesbitt.

_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

Principal Clerk's Use Only

PASSED 1st READING
APR 26 2001
AND REFERRED TO COMMITTEE
ON Pensions and...
Retirement





North Carolina General Assembly
Legislative Services Office

Revised Analyst for June 20th meeting
George R. Hall, Legislative Services Officer
(919) 733-7044

Tony C. Goldman, Director
Administrative Division
Room 9, Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
(919) 733-7500

Gerry F. Cohen, Director
Bill Drafting Division
Suite 401, LOB
300 N. Salisbury St.
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(919) 733-6660

James D. Johnson, Director
Fiscal Research Division
Suite 619, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-4910

Dennis W. McCarty, Director
Information Systems Division
Suite 400, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

ATTACHMENT #7

June 19, 2001

MEMORANDUM

TO: Representative Nesbitt

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note Proposed Committee Substitute for House Bill 1390

Re: **Changes law relating to the purchase of withdrawn service in the Teachers' and State Employees' Retirement System**

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Representatives Barefoot & Cox; Co-chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants, June 19, 2001
- (3) Actuarial Note, Hartman & Associates, June 19, 2001

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1390 (Second Edition)

SHORT TITLE: Retirement Withdrawn Service

SPONSOR(S): Representative Nesbitt

SYSTEM AFFECTED: Teachers' and State Employees' Retirement System

BILL SUMMARY: Repeals the law, which allows members to purchase withdrawn service after they have returned and worked for 10 years. Repeals the requirement that the purchase of withdrawn service must be made within three years and repeals the 'full cost' method of calculating withdrawn service for member who withdrew after July 1, 1974. Repeals the provision for the "full actuarial cost" for members beyond the three year window and those with more than five years and less than ten years. The bill allows any member with five or more years of service to purchase the withdrawn service by paying the amount withdrew plus 6 1/2% interest compounded annually from year of withdrawal to year of repayment.

EFFECTIVE DATE: July 1, 2001

ESTIMATED IMPACT: Buck Consultants estimates the annual cost to be \$2.6 million to fund cost to repeal the 'full cost' method of calculating withdrawn service. No data is available to calculate the cost of repealing the three window of opportunity but actuary believes the cost would be significant. For every 1,000 members who purchase service, the estimated cost will be approximately \$9.0 million per year.

Hartman & Associates estimates the annual cost to be \$2.6 million to fund the cost to repeal the 'full-cost' and estimates the cost to increase due to:

- (1) Reduction in the repayment cost to employees;
- (2) Elimination of the required repayment window; and
- (3) Expansion of number of employees eligible by reducing eligibility to five years.

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.

SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.

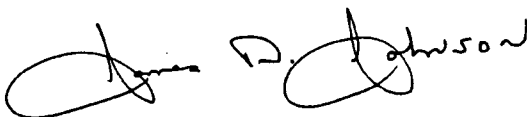
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson



DATE: June 19, 2001

**BUCK
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2001

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1388

Proposed Committee Substitute for House Bill 1390

Dear Mr. Williamson:

We have received your request of June 19 regarding Proposed Committee Substitute for House Bill 1390 which affects the Teachers' and State Employees' Retirement System.

This legislation appears to amend G.S.135-4(k) to allow members to purchase withdrawn service under the Teachers' and State Employees' Retirement System after returning to service and completing 5 years of subsequent membership service. In order to receive credit for the service forfeited at the time of withdrawal, the member would be required to repay in a total lump sum any and all of the accumulated contributions previously withdrawn with 6-1/2% interest compounded annually for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expenses. This legislation further appears to amend G.S.135-4(m) to remove the requirement that the purchase or repayment be made within 3 years after the member first becomes eligible. Lastly, this legislation appears to repeal G.S.135-4(x), which currently provides for members with 5 years of membership service, to purchase credit under the full actuarial cost method.

Based on information we received from the Retirement System showing that approximately 300 members purchased withdrawn service last year under the current provisions, the estimated annual cost of this legislation is \$2,600,000. However, it is also anticipated that participants who did not previously purchase service will now purchase service at the lower cost. For each additional 1,000 members who purchase service due to this legislation, the cost to the System would be approximately \$9,000,000 annually.

In the event the bill is amended to provide for a refund to members who have previously purchased withdrawn service at "full cost" or full actuarial cost, the cost to the Retirement System could be substantial, since thousands of members and beneficiaries have purchased service credits under these provisions.

Mr. Michael L. Williamson
June 19, 2001
Page 2

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq

P:\NCTE\2001\Doc\Corr\HB 1370\PCS.doc

BUCK
CONSULTANTS

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 19, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed Committee Substitute to House Bill 1390: An Act to
Allow the Purchase of Withdrawal Service in the TSERS

Dear Mr. Moore:

This proposed committee substitute amends G.S. 135-4(k) to modify the provisions for purchasing credits for service for which the employee has previously withdrawn his contributions in the Teachers' and State Employees' Retirement System (TSERS). An employee who terminates his service, withdraws his contributions and subsequently returns to service may purchase the prior service credits upon completion of ten years of membership service. For members who left service prior to July 1, 1974, the repayment amount equals the accumulated contributions previously withdrawn with sufficient interest added thereto to cover one-half the cost of providing such credit. For members who left service after June 30, 1974, the repayment amount equals the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such credit. If repayment is not made within three years after the member becomes eligible to purchase the prior service credits, he is then required to repay the full actuarial cost for the service credits.

Under this proposed committee substitute, a member would be eligible to purchase prior service credits for withdrawn service after five years of membership. The repayment amount would equal the accumulated contributions previously withdrawn plus interest at a rate of 6.5% per year since the date of withdrawal for all employees. The increase in the repayment amount for purchases made more than three years after becoming eligible would be repealed. This act is effective when it becomes law.

The effect of this change would be a decrease in the amount paid by certain members for purchase of prior service credits, producing a cost to the plan. Based on the current incidence rates for purchasing prior service credits, the estimated financial impact is an increase in the annual cost to the TSERS of approximately \$2.6 million or 0.03%

file
P. E. R.
minutes 6/20/01

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSION AND RETIREMENT**.

-
- ☐ Committee Substitute for
H.B. 1390 A BILL TO BE ENTITLED AN ACT TO ALLOW THE PURCHASE OF
WITHDRAWAL SERVICE IN THE TEACHERS' AND STATE EMPLOYEES'
RETIREMENT SYSTEM.
- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☒ With a favorable report as to committee substitute bill, ~~which changes the title~~, unfavorable
as to original bill, and recommendation that the committee substitute bill be re-referred to the
Committee on APPROPRIATIONS.
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT JUNE 21, 2001

The House Committee on Pensions and Retirement met on Thursday, June 21 following Session in the Chamber of the House of Representatives. Members present were Representatives Barefoot and Cox, Co-chairs; Representatives Hensley, McCombs, Oldham, Tolson, G. Wilson and Yongue. Stanley Moore was present to answer questions.

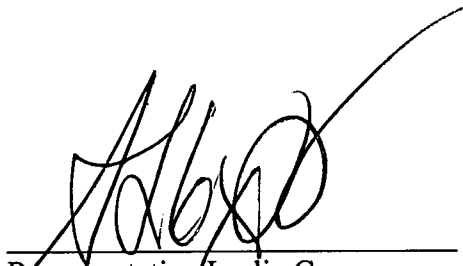
Representative Barefoot called the meeting to order.

Proposed Committee Substitute 1331 was before the committee. Representative Tolson moved that it be adopted and explained the bill to the committee. Representative Yongue stated that he was looking forward to helping teachers, and asked his fellow committee members to please support him in endorsing the bill. Representative Barefoot called for further questions. Representative Yongue moved for a favorable report as to the committee substitute bill, unfavorable to original bill, and that the committee substitute bill be re-referred to the committee on APPROPRIATIONS. The motion carried.

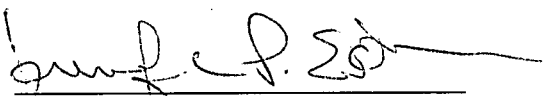
HOUSE BILL 999, Changes Legislative Members Retirement System, was before the committee for consideration. Representative Oldham moved for adoption. Stanley Moore, Committee Counsel, was recognized to explain the bill. He explained that the bill removes prohibition for a state employee, judge or teacher who has served in legislature from receiving the legislative pension. A state employee currently cannot receive pay from the state and the legislative pension concurrently. Representative Hensley asked whether it would allow former members of the General Assembly to go into the retirement system if they were retired judges. Mr. Moore explained that it only allow them to receive the little legislative retirement they would normally receive. Representative Hensley then asked whether a judge would be penalized if he were to take a second job. Mr. Moore stated that no, he would no. He then explained that this bill was being introduced because several people from the General Assembly have met the requirements [of HB 999], but the law didn't allow them to utilize it.

Representative Barefoot asked if there were any further questions. Representative Tolson asked if the cost was \$90,000. Representative Barefoot said yes, but that question and discussion would be covered in Appropriations. Representative Tolson favorable report as to the committee substitute bill, unfavorable to original bill, and that the committee substitute bill be re-referred to the committee on APPROPRIATIONS. The motion carried.

The meeting was adjourned.



Representative Leslie Cox



Jennifer Edwards
Committee Assistant

Attachments:

House Bill 999
House Bill 1331

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 999

Short Title: Retirement COLA Increases.

(Public)

Sponsors: Representatives Cox, Barefoot; and Buchanan.

Referred to: Pensions and Retirement.

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO PROVIDE COST-OF-LIVING INCREASES FOR RETIREES OF THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE
JUDICIAL RETIREMENT SYSTEM, AND THE LEGISLATIVE RETIREMENT
SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-5 is amended by adding a new subsection to read:

"(iii) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 2. G.S. 135-65 is amended by adding a new subsection to read:

"(v) From and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of one and six-tenths percent (1.6%) of the allowance payable as determined by the Board of Trustees based upon the number of months that a retirement allowance was paid between July 1, 2000, and June 30, 2001."

SECTION 3. G.S. 120-4.22A is amended by adding a new subsection to read:

1 "(p) In accordance with subsection (a) of this section, from and after July 1, 2001,
2 the retirement allowance to or on account of beneficiaries whose retirement commenced
3 on or before January 1, 2001, shall be increased by one and six-tenths percent (1.6%) of
4 the allowance payable on June 1, 2001. Furthermore, from and after July 1, 2001, the
5 retirement allowance to or on account of beneficiaries whose retirement commenced
6 after January 1, 2001, but before June 30, 2001, shall be increased by a prorated amount
7 of one and six-tenths percent (1.6%) of the allowance payable as determined by the
8 Board of Trustees based upon the number of months that a retirement allowance was
9 paid between January 1, 2001, and June 30, 2001."

10 **SECTION 4.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(zz) From and after July 1, 2001, the retirement allowance to or on account of
12 beneficiaries whose retirement commenced on or before July 1, 2000, shall be increased
13 by one and six-tenths percent (1.6%) of the allowance payable on June 1, 2001, in
14 accordance with subsection (k) of this section. Furthermore, from and after July 1, 2001,
15 the retirement allowance to or on account of beneficiaries whose retirement commenced
16 after July 1, 2000, but before June 30, 2001, shall be increased by a prorated amount of
17 one and six-tenths percent (1.6%) of the allowance payable as determined by the Board
18 of Trustees based upon the number of months that a retirement allowance was paid
19 between July 1, 2000, and June 30, 2001."

20 **SECTION 5.** This act becomes effective July 1, 2001.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 999
Committee Substitute Favorable 6/25/01

Short Title: Amend Membership Requirements.

(Public)

Sponsors:

Referred to:

April 9, 2001

A BILL TO BE ENTITLED

AN ACT TO CHANGE THE MEMBERSHIP REQUIREMENTS OF THE
LEGISLATIVE RETIREMENT SYSTEM AND TO ELIMINATE CERTAIN
PROHIBITIONS ON RECEIVING BENEFITS UNDER THAT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 120-4.11 reads as rewritten:

"§ 120-4.11. Membership.

The following members of the General Assembly and former members of the General Assembly are eligible for membership in the Retirement System, ~~provided they are not contributing to nor are qualified to contribute to the North Carolina Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System, the Law Enforcement Officers' Retirement System or the Consolidated Judicial Retirement System of North Carolina.~~ System:

(1) Members of the General Assembly who serve on and after June 15, 1983; and

(2) Former members of the General Assembly who served prior to June 15, 1983; and

a. Who elect to transfer current and future entitlements, or contributions, from the Legislative Retirement Fund established by Chapter 1269 of the 1969 Session Laws; or

b. Who have five or more years of service as a member of the General Assembly."

SECTION 2. G.S. 120-4.21(c) reads as rewritten:

"(c) Limitations. – In no event shall any member receive a service retirement allowance greater than seventy-five percent (75%) of his 'highest annual salary' ~~salary'. nor shall he receive any service retirement allowance whatever while employed in a position that makes him a contributing member of any of the following retirement systems: The Teachers' and State Employees' Retirement System, the North Carolina Local Governmental Employees' Retirement System, or the Consolidated~~

1 Judicial Retirement System. If he should become a member of any of these systems,
2 payment of his service retirement allowance shall be suspended until he withdraws from
3 membership in that system."

4 SECTION 3. G.S. 120-4.22(d) reads as rewritten:

5 "(d) Limitations. – In no event shall any member receive a disability retirement
6 allowance greater than seventy-five percent (75%) of his 'highest annual salary'
7 salary'. nor shall he receive any disability retirement allowance whatever while
8 employed in a position that makes him a contributing member of any of the following
9 retirement systems: The Teachers' and State Employees' Retirement System, the North
10 Carolina Local Governmental Employees' Retirement System, the Law Enforcement
11 Officers' Retirement System, the Uniform Judicial Retirement System of North
12 Carolina, the Uniform Solicitorial Retirement System of North Carolina or the Uniform
13 Clerks of Court Retirement System of North Carolina. If he should become a member of
14 any of these systems payment of his disability retirement allowance shall be suspended
15 until he withdraws from membership in that system."

16 SECTION 4. This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 1331
Committee Substitute Favorable 6/25/01

Short Title: Retired School Emp'ees Return to Schools.

(Public)

Sponsors:

Referred to:

April 12, 2001

A BILL TO BE ENTITLED

AN ACT TO SHORTEN THE AMOUNT OF TIME RETIRED TEACHERS MUST
BE RETIRED BEFORE RETURNING TO WORK WITHOUT LOSING
RETIREMENT BENEFITS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-3(8)c., as enacted by Section 28.24(a) of S.L. 1998-212, and rewritten by Section 67 of S.L. 1998-217 and by Section 8.24(a) of S.L. 2000-67, reads as rewritten:

"c. **(Effective until June 30, 2003)** Should a beneficiary who retired on an early or service retirement allowance under this Chapter be reemployed, or otherwise engaged to perform services, by an employer participating in the Retirement System on a part-time, temporary, interim, or on a fee-for-service basis, whether contractual or otherwise, and if such beneficiary earns an amount in any calendar year which exceeds fifty percent (50%) of the reported compensation, excluding terminal payments, during the 12 months of service preceding the effective date of retirement, or twenty thousand dollars (\$20,000), whichever is greater, as hereinafter indexed, then the retirement allowance shall be suspended as of the first day of the month following the month in which the reemployment earnings exceed the amount above, for the balance of the calendar year. The retirement allowance of the beneficiary shall be reinstated as of January 1 of each year following suspension. The amount that may be earned before suspension shall be increased on January 1 of each year by the ratio of the Consumer Price Index to the Index one year earlier, calculated to the nearest tenth of a percent (1/10 of 1%).

1 The computation of postretirement earnings of a beneficiary
2 under this sub-subdivision, G.S. 135-3(8)c., who has been
3 retired at least ~~12~~ four months and has not been employed in
4 any capacity, except as a substitute teacher, with a public school
5 for at least ~~12~~ four months immediately preceding the effective
6 date of reemployment, shall not include earnings while the
7 beneficiary is employed to teach on a substitute, interim, or
8 permanent basis in a public school. The Department of Public
9 Instruction shall certify to the Retirement System that a
10 beneficiary is employed to teach by a local school
11 administrative unit under the provisions of this sub-subdivision
12 and as a retired teacher as the term is defined under the
13 provisions of G.S. 115C-325(a)(5a). Beneficiaries employed
14 under this sub-subdivision are not entitled to any benefits
15 otherwise provided under this Chapter as a result of this period
16 of employment."

17 **SECTION 2.** G.S. 115C-325(a)(5a), as enacted by Section 28.24(b) of S.L.
18 1998-212 and rewritten by Section 67.1(a) of S.L. 1998-217, reads as rewritten:

19 "(a) Definition of Terms. – As used in this section unless the context requires
20 otherwise:

21 ...
22 (5a) **(Effective until June 30, 2003)** "Retired teacher" means a beneficiary
23 of the Teachers' and State Employees' Retirement System of North
24 Carolina who has been retired at least ~~12~~ four months, has not been
25 employed in any capacity, other than as a substitute teacher, with a
26 local board of education for at least ~~12~~ four months, immediately
27 preceding the effective date of reemployment, is determined by a local
28 board of education to have had satisfactory performance during the last
29 year of employment by a local board of education, and who is
30 employed to teach as provided in G.S. 135-3(8)c. A retired teacher
31 shall be treated the same as a probationary teacher except that a retired
32 teacher is not eligible for career status."

33 **SECTION 3.** This act becomes effective July 1, 2001, and expires June 30,
34 2003.

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 1331

Short Title: Retired School Emp'ees Return to Schools.

(Public)

Sponsors: Representatives Oldham, Barefoot, Easterling, Cox (Primary Sponsors); Arnold, Bonner, Fox, Haire, Hall, Insko, Michaux, Morris, Rogers, Sutton, Tolson, Wainwright, Womble, and Yongue.

Referred to: Pensions and Retirement.

April 12, 2001

A BILL TO BE ENTITLED

AN ACT TO ENABLE CERTAIN RETIRED SCHOOL EMPLOYEES TO RETURN TO THE PUBLIC SCHOOLS AFTER THREE MONTHS WITHOUT LOSING RETIREMENT BENEFITS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-3(8)c., as rewritten by Section 28.24(a) of S.L. 1998-212, Section 67 of S.L. 1998-217, and Section 8.24(a) of S.L. 2000-67, reads as rewritten:

"c. Should a beneficiary who retired on an early or service retirement allowance under this Chapter be reemployed, or otherwise engaged to perform services, by an employer participating in the Retirement System on a part-time, temporary, interim, or on a fee-for-service basis, whether contractual or otherwise, and if such beneficiary earns an amount in any calendar year which exceeds fifty percent (50%) of the reported compensation, excluding terminal payments, during the 12 months of service preceding the effective date of retirement, or twenty thousand dollars (\$20,000), whichever is greater, as hereinafter indexed, then the retirement allowance shall be suspended as of the first day of the month following the month in which the reemployment earnings exceed the amount above, for the balance of the calendar year. The retirement allowance of the beneficiary shall be reinstated as of January 1 of each year following suspension. The amount that may be earned before suspension shall be increased on January 1 of each year by the ratio of the Consumer Price Index to the Index

one year earlier, calculated to the nearest tenth of a percent (1/10 of 1%).

The computation of postretirement earnings of a beneficiary under this sub-subdivision, G.S. 135-3(8)c., ~~who has been retired at least 12 months and has not been employed in any capacity, except as a substitute teacher, with a public school for at least 12 months immediately preceding the effective date of reemployment,~~ shall not include earnings while the beneficiary is employed to teach as a teacher, counselor, media specialist, principal, or assistant principal on a substitute, interim, or permanent basis in a public school. ~~The Department of Public Instruction school if:~~

1. The beneficiary has been retired at least three months and has not been employed in any capacity, except as a substitute teacher, counselor, media specialist, principal, or assistant principal with a public school for at least three months immediately preceding the effective date of reemployment, retired from a public school, and is subsequently reemployed as a teacher, counselor, media specialist, principal, or assistant principal at that public school; or
2. The beneficiary retired as a teacher, counselor, media specialist, principal, or assistant principal from a public school during or at the end of one school year and is employed at a different public school as a teacher, counselor, media specialist, principal, or assistant principal for all or part of a subsequent school year.

Each local school administrative unit shall certify to the Retirement System that a beneficiary is employed to teach as a teacher, counselor, media specialist, principal, or assistant principal by a that local school administrative unit under the provisions of this sub-subdivision and as a retired teacher teacher, counselor, media specialist, principal, or assistant principal as the term is defined under the provisions of G.S. 115C-325(a)(5a).

Beneficiaries employed under this sub-subdivision are not entitled to any benefits otherwise provided under this Chapter as a result of this period of employment."

SECTION 2. G.S. 115C-325(a)(5a), as enacted by Section 28.24(c) of S.L. 1998-212 and rewritten by Section 67.1 of S.L. 1998-217 and Section 8.24(b) of S.L. 2000-67, reads as rewritten:

"(5a) (Effective until June 30, 2003) "Retired teacher" teacher, counselor, media specialist, principal, or assistant principal" means a beneficiary

of the Teachers' and State Employees' Retirement System of North Carolina ~~who~~ who:

a. Either:

1. ~~has~~ Was employed as a teacher, counselor, media specialist, principal, or assistant principal;
2. Has been retired at least ~~12 months~~, three months from a public school;
3. ~~has~~ Has not been employed in any capacity, other than as a substitute teacher, counselor, media specialist, principal, or assistant principal with a local board of education for at least ~~12~~ three months, immediately preceding the effective date of reemployment, reemployment;
4. is ~~Is~~ determined by a local board of education to have had satisfactory performance during the last year of employment by a local board of education, education in a public school; and
5. ~~who is~~ Is employed to teach as a teacher, counselor, media specialist, principal, or assistant principal in the same public school, as provided in G.S. 135-3(8)c. G.S. 135-3(8)c.;

b. Or:

1. Retired as a teacher, counselor, media specialist, principal, or assistant principal from a public school during or at the end of one school year;
2. Is determined by a local board of education to have had satisfactory performance during the last year of employment at a public school; and
3. Is employed at a different public school as a teacher, counselor, media specialist, principal, or assistant principal for all or part of a subsequent school year as provided in G.S. 135-8(c).

A retired ~~teacher~~ teacher, counselor, media specialist, principal, or assistant principal who is a teacher as defined in subdivision (6) of this subsection shall be treated the same as a probationary teacher except that a retired teacher is not eligible for career status."

SECTION 3. G.S. 115C-316(d) reads as rewritten:

"(d) (Expires June 30, 2003) A local board of education may pay a retired ~~teacher~~ teacher, counselor, media specialist, principal, or assistant principal as that term is defined in G.S. 115C-325(a)(5a) no more than the employee would have received on the ~~teacher~~ appropriate salary schedule, excluding longevity, had the employee not retired."

SECTION 4. This act becomes effective July 1, 2001, and expires July 1, 2003.

MINUTES

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT JULY 18, 2001

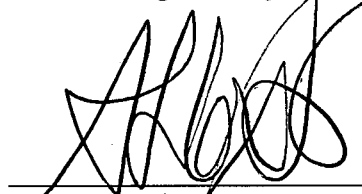
The House Committee on PENSIONS AND RETIREMENT met on Wednesday, July 18, 2001 at 10:00 am in Room 415 of the Legislative Office Building. Members present were Representatives Barefoot and Cox, Co-chairs; Representatives McCombs, Barbee, Rogers, Shubert, Tolson, Wilson, G. and Yongue. The Visitor Registration Sheet is attached. Other attachments are listed and have been made a part of the Minutes.

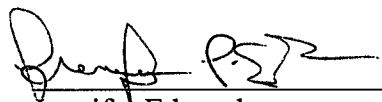
Representative Cox called the meeting to order and introduced the pages serving the committee: Miss Jodi Burleson and Miss Emily Morton of Stanly County, sponsored by Representative Barbee and Mr. Adam Schuller of Harnett County, sponsored by Representative Davis.

HOUSE BILL 139, Local Flex. Regarding Charter School Teachers, section 1 sponsored by Senator Rand and section 2 sponsored by Representative Allred was before the committee. Representative Barefoot moved for adoption of the Proposed House Committee Substitute, motion carried. Representative Allred presented and explained the Proposed House Committee Substitute. He then stated that the bill had passed the Rules Committee and had been referred to Pensions and Retirements. Stanley Moore, committee counsel, was asked to further explain the bill. He stated that Representative Allred had explained it thoroughly.

Representative Shubert did not agree with the first part of the bill regarding a "leave of absence." Representative Yongue moved for a favorable report of the Proposed House Committee Substitute, unfavorable to the original, motion carried

The meeting was adjourned.



Representative Cox
Presiding Committee Chair

Jennifer Edwards
Committee Assistant

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

July 18, 2001

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME _____

FIRM OR AGENCY AND ADDRESS

E. P. Dawson

H.C. Pat Sch Personnel

Bill Brooks

NC FPC

Marshall Bannets

Department of State Treasurers
Retirement System Division

Ephraim Perez

Electricity

A Paris

SCAND

file

7-18-01 mtg.

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☒ House Committee Substitute for
S.B. 139 A BILL TO BE ENTITLED AN ACT TO PERMIT LOCAL FLEXIBILITY WITH REGARD TO THE REHIRING OF TEACHERS WHO LEAVE PUBLIC SCHOOLS TO TEACH IN CHARTER SCHOOLS, AND TO AUTHORIZE CERTAIN CHARTER SCHOOLS TO ELECT TO PARTICIPATE IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM.

- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.
- ☒ With a favorable report as to House committee substitute bill (# 2), unfavorable as to House Committee Substitute Bill # 1.
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

D

SENATE BILL 139
Education/Higher Education Committee Substitute Adopted 3/21/01
Third Edition Engrossed 3/28/01
House Committee Substitute Favorable 6/20/01
PROPOSED HOUSE COMMITTEE SUBSTITUTE S139-PCS8234-RO-35

Short Title: Local Flex. Regarding Charter Sch. Teachers.

(Public)

Sponsors:

Referred to:

February 14, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO PERMIT LOCAL FLEXIBILITY WITH REGARD TO THE REHIRING
3 OF TEACHERS WHO LEAVE PUBLIC SCHOOLS TO TEACH IN CHARTER
4 SCHOOLS, AND TO AUTHORIZE CERTAIN CHARTER SCHOOLS TO ELECT
5 TO PARTICIPATE IN THE TEACHERS' AND STATE EMPLOYEES'
6 RETIREMENT SYSTEM.

7 The General Assembly of North Carolina enacts:

8 SECTION 1. G.S. 115C-238.29F(e)(3) reads as rewritten:
9 "(e) Employees. -

10 ...
11 (3) If a teacher employed by a local school administrative unit makes a
12 written request for ~~an extended~~ a leave of absence to teach at a charter
13 school, the local school administrative unit shall grant the leave. ~~The~~
14 ~~local school administrative unit shall grant a leave for any number of~~
15 ~~years requested by the teacher, shall extend the leave for any number~~
16 ~~of years requested by the teacher, and shall extend the leave at the~~
17 ~~teacher's request. leave for one year.~~ For the initial year of a charter
18 school's operation, the local school administrative unit may require
19 that the request for a leave of absence ~~or extension of leave~~ be made
20 up to 45 days before the teacher would otherwise have to report for
21 duty. ~~For subsequent years, After the initial year of a charter school's~~
22 operation, the local school administrative unit may require that the
23 request for a leave of absence ~~or extension of leave~~ be made up to 90
24 days before the teacher would otherwise have to report for duty. A
25 local board of education is not required to grant a request for a leave of
26 absence or a request to extend or renew a leave of absence for a

1 teacher who previously has received a leave of absence from that
2 school board under this subdivision. A teacher who has career status
3 under G.S. 115C-325 prior to receiving ~~an extended~~ a leave of absence
4 to teach at a charter school may return to a public school in the local
5 school administrative unit with career status at the end of the leave of
6 absence or upon the end of employment at the charter school if an
7 appropriate position is available. If an appropriate position is
8 unavailable, the teacher's name shall be placed on a list of available
9 teachers and that teacher shall have priority on all positions for which
10 that teacher is qualified in accordance with G.S. 115C-325(e)(2)."

11 **SECTION 2.** Notwithstanding the time limitation contained in G.S.
12 135-5.3(b), the board of directors of any charter school that received State Board of
13 Education approval under G.S. 115C-238.29D on or after January 1, 2001, may elect to
14 become a participating employer in the Teachers' and State Employees' Retirement
15 System in accordance with Article 1 of Chapter 135 of the General Statutes. The
16 election authorized by this section must be made no later than 30 days after the effective
17 date of this Act, and in accordance with all other requirements of G.S. 135-5.3.

18 **SECTION 3.** Section 1 of this act is effective when it becomes law and
19 applies to requests under G.S. 115C-238.29F(e)(3) that are made on and after that date.
20 The remainder of this act is effective when it becomes law.

Jackie Hamby (House Legislative Assistants Office)

From: Anne Cole (House Legislative Assistants Director)
Sent: Tuesday, July 17, 2001 4:27 PM
To: Jackie Hamby (House Legislative Assistants Office)
Subject: FW: MEETING NOTICE 7-18-01

-----Original Message-----

From: Jennifer Edwards (Rep. Cox)
Sent: Tuesday, July 17, 2001 4:05 PM
Subject: MEETING NOTICE 7-18-01

**NORTH CAROLINA HOUSE OF REPRESENTATIVES
COMMITTEE MEETING NOTICE
AND
BILL SPONSOR NOTICE
2001-2002 SESSION**

You are hereby notified that the Committee on **PENSIONS AND RETIREMENT** will meet as follows:

DAY & DATE: ~~Wednesday, July 18, 2001~~

TIME: ~~10:00 am~~

LOCATION: ROOM 415 LOB

The following bills will be considered (Bill # & Short Title & Bill Sponsor):
SB 139 Local Flex. Regarding Charter School Teachers

Sponsored by Senator Rand

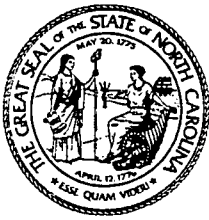
Respectfully,

Representative REP. LESLIE COX
Chairman

I hereby certify this notice was filed by the committee assistant at the following offices at **4:00 pm** on **July 17, 2001**.

____ Principal Clerk
____ Reading Clerk - House Chamber

7/17/2001



SENATE BILL 139: Local Fex. Regarding Charter Sch. Teachers.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 18, 2001
Version: Fourth Edition (S139-CSRO-35)

Introduced by: Senator Rand
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

The Proposed Committee Substitute contains a provision authorizing a charter school that received approval on or after January 1, 2001, to elect to become a participating employer in the Teachers' and State Employees' Retirement System no later than 30 days after the effective date of this Act.

BILL ANALYSIS:

The Retirement law currently provides that a charter school must elect whether to participate in the State Retirement System "no later than 30 days after both parties have signed the written charter". This is the agreement between the State Board of Education and the board of directors of the charter school, which is signed when the State Board approves the charter school. By electing to join the Retirement System, all of the charter school's eligible employees would be mandatory members of the System, just as though it were a regular public school. Each year when the State Board of Education approves the new charter schools for the year, the Retirement System sends information to the new charter schools about the Retirement System and the election. The charter schools must make the election within the 30-day period provided by law and the Retirement System has no authority to waive this statutory requirement.

Section 2 of the Proposed Committee Substitute authorizes any charter school that received approval after January 1, 2001, to elect to participate in the Retirement System no later than 30 days after the effective date of this Act. This will give any charter school approved this year a second opportunity to elect to join the System if it failed to do so within the statutory time limit. The PCS does not amend the law to change the 30-day requirement or any other requirement currently contained in the law. It only authorizes a one-time extension for charter schools approved this year that did not make the election previously.

This provision would become effective when it becomes law.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Senate Bill 139 (Fourth Edition)

SHORT TITLE: Local Flex. Regarding Charter School Teachers

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System

FUNDS AFFECTED: General Fund, and Receipt Fund

BILL SUMMARY: Under the existing law, a charter school has 30 days after they have signed the written charter to elect to participate in the Teachers and State Employee's Retirement System. This bill will give the charter schools that received approval from the State Board of Education on or after March 15, 2001 until August 1, 2001 to make the election whether to participate.

EFFECTIVE DATE: August 1, 2001

ESTIMATED IMPACT ON STATE: Retirement System Actuary: Buck Consultants estimates the cost to be negligible.


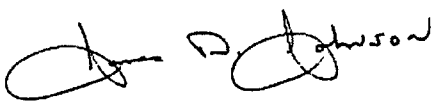
General Assembly Actuary: Hartman & Associates states the cost cannot be determined since no data is available.

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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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: James D. Johnson 

DATE: July 9, 2001

**BUCK
CONSULTANTS**

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 2, 2001

Mr. Michael Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, North Carolina 27603-1388

Proposed House Committee Substitute for Senate Bill 139

Dear Mr. Williamson:

We have received your letter of June 21 regarding Proposed House Committee Substitute for Senate Bill 139 which affects the Teachers' and State Employees' Retirement System.

This legislation, in Section 1, appears to amend the statutes governing charter schools to permit some flexibility relative to the rehiring of teachers who leave the public schools to teach in charter schools. This legislation, in Section 2, appears to extend the period the board of directors of any charter school, that received State Board of Education approval on or after March 15, 2001, may elect to become a participating employer in the Teachers' and State Employees' Retirement System. The election authorized by this section must be made no later than August 1, 2001.

The Retirement System is aware of one charter school that received its charter on March 16, 2001 that desires to become a participating employer in the Teachers' and State Employees' Retirement System; but, whose board of directors did not make its election within the 30-day statutory requirement. The cost to the State for this legislation would be negligible.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

Edward A. Macdonald by ET
Edward A. Macdonald
Principal and Consulting Actuary

EAM:jq

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00387-0001 RET00/180

Buck Consultants, Inc.

7701955-2488 Fax 7701933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 22, 2001

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed House Committee Substitute to Senate Bill 139
(Section 2): An Act to Authorize Certain Charter Schools to
Elect to Participate in the TSERS

Dear Mr. Moore:

Section 2 of this committee substitute extends the time for certain charter schools to elect to participate in the North Carolina Teachers' and State Employees' Retirement System (TSERS). Currently, G.S. 135-5.3(b) provides that the Board of Directors of each charter school must make an irrevocable election to join the retirement system, and if elected, all employees of the charter school are required to participate. The election must be made within 30 days after the date the charter is signed. This bill would allow any charter school approved on or after March 15, 2001 to elect to participate in the TSERS if the election is made by August 1, 2001.

If the demographics of the employees in charter schools electing coverage under this provision are similar to those of current covered employees in the TSERS, the estimated cost would be the current rates of providing retirement, death, disability, and retiree health benefits applied to the payroll of covered employees in the electing charter schools. However, since each school is given the option to participate in the TSERS, and the window for making such an election would be extended, the potential exists for antiselection on the part of the schools. In particular, schools with a heavy concentration of younger employees may elect not to participate in the TSERS, increasing the cost to cover those charter schools who elect to participate.

Determining the magnitude of that increase would require

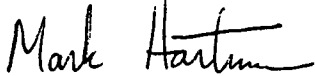
Mr. Stanley Moore
June 22, 2001

Page 2

performing actuarial valuations based on data for the charter schools eligible under this provision. Since that data has not been provided, no estimate of the total cost is included in this note.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

2002

**HOUSE
PENSIONS &
RETIREMENT**

MINUTES

**HOUSE COMMITTEE ON
PENSIONS AND RETIREMENT**

2002 SESSION

COMMITTEE CHAIRS

Representatives Barefoot and Cox

COMMITTEE VICE CHAIR

Representative McCombs

Jackie Pittman and Jennifer Edwards

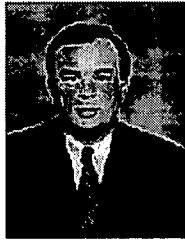
COMMITTEE ASSISTANTS

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

2001 – 2002 SESSION

<u>MEMBER</u>	<u>ASSISTANT</u>	<u>PHONE</u>	<u>OFFICE</u>	<u>SEAT</u>
BAREFOOT, Dan Chairman	Jackie Pittman Committee Assistant	715-3021	416B LOB	72
COX, Leslie Chairman	Jennifer Edwards Committee Assistant	733-5746	1220 LB	15
McCOMBS, Gene Vice-Chairman	Suzanne Erskine	733-5881	514 LOB	75
BARBEE, Bobby	Rosa Murray	733-5908	1025 LB	52
EASTERLING, Ruth	Marie Horne	733-5900	631 LOB	6
HENSLEY, Bob	Margie Penven	733-5780	610 LOB	79
MORGAN, Richard	Dixie Epps	715-3010	418B LOB	64
OLDHAM, Pete	Delta Prince	715-2530	634 LOB	58
ROGERS, Gene	Sally Gillis	715-3023	416A LOB	35
SHUBERT, Fern	Carol Wilson	733-5602	1426 LB	98
STARNES, Edgar	Pattie Fleming	715-9664	617 LOB	112
TOLSON, Joe	Gayle Christian	715-3024	402 LOB	59
WILSON, Connie	Chris Floyd	733-5903	502 LOB	97
WILSON, Gene	Rebecca Jones-Cooper	733-7727	1109 LB	51
YONGUE, Doug	Jenny Umstead	733-5821	1303 LB	84
COMMITTEE COUNSEL				
Stanley Moore, Fiscal Research		733-4910		
Karen Cochrane-Brown, Research Division		733-2578		
Theresa Matula, Research Division		733-2578		

NORTH CAROLINA GENERAL ASSEMBLY
HOUSE PENSIONS AND RETIREMENT COMMITTEE
2001 – 2002 SESSION



Rep. Barefoot
Chair



Rep. Cox
Chair



Rep. McCombs
Vice Chair



Rep. Barbee



Rep. Easterling



Rep. Hensley



Rep. Morgan



Rep. Oldham



Rep. Rogers



Rep. Shubert



Rep. Starnes



Rep. Tolson



Rep. Wilson, C.



Rep. Wilson, G.



Rep. Yongue

ATTENDANCE

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT 2002

(Name of Committee)

[illegible]

North Carolina General Assembly
Through House Committee on
Pensions and Retirement

Date: 10/17/2002
Time: 14:41
Page: 001 of 003
Leg. Day: H-256/S-242

2001-2002 Biennium

Bill	Introducer	Short Title	Latest Action	In Date	Out Date
H0004	Hensley	LAW OFFICERS' 25-YEAR RETIREMENT.	HF Postponed Indefinitely	02-20-01	04-04-01
H0027 H0027	Dedmon	INCREASE FIREMEN AND RESCUE SQUAD PENSIONS.	*HF Postponed Indefinitely	02-01-01	04-19-01
H0079	Tucker	STUDY COMMISSION ON EARLY RETIREMENT.	*HF Postponed Indefinitely	02-08-01	04-19-01
H0080	Tucker	INCREASE LOCAL RETIREMENT BENEFITS.	HF Postponed Indefinitely	02-08-01	04-16-01
H0081	Tucker	INCREASE DEATH BENEFIT/LOCAL RETIREMENT.	HF Postponed Indefinitely	02-08-01	04-04-01
H0198=	Smith	REPEAL MOREHEAD CITY FIREMEN'S RETIRE. FUND.	*HR Ch. SL 2001-18	03-07-01	04-02-01
H0243	Rogers	TEACHER RETIREMENT ELIGIBILITY.	*HF Postponed Indefinitely	04-23-01	10-03-02
H0333	Grady	DEATH BENEFITS TO LEGAL REPRESENTATIVE.	*HF Postponed Indefinitely	03-01-01	04-16-01
H0477	Gillespie	REPEAL MARION FIREMEN'S SUPP. RETIRE. FUND.	*HR Ch. SL 2001-21	03-20-01	04-02-01
H0547	Arnold	POSTRETIREMENT EARNINGS.	HF Postponed Indefinitely	03-12-01	10-03-02
H0604=	Alexander	AMEND CHARLOTTE FIREFIGHTERS' RETIREMENT ACT.	HR Ch. SL 2001-22	03-14-01	04-02-01
H0621	Weiss	REPEAL CARY FIREMEN'S SUPP. RETIRE. FUND.	*HR Ch. SL 2001-23	03-15-01	04-02-01
H0777	Harrington	REPEAL GASTONIA FIREMEN'S SUPP. PENSION FUND.	HR Ch. SL 2001-34	03-26-01	04-04-01
H0825 H0825	Cox	CORRECTIONAL OFFICERS/ 28-YEAR RETIREMENT.	HF Postponed Indefinitely	03-27-01	05-10-01
H0943	Barefoot	DISCONTINUED MEMBERSHIP SERVICE.	*HR Ch. SL 2001-435	04-02-01	04-19-01
H0999	Cox	AMEND MEMBERSHIP REQUIREMENTS.	*HF Postponed Indefinitely	04-09-01	06-25-01
H1017=	Barefoot	RAISE FIRE AND RESCUE PENSION AMOUNT.	*HF Postponed Indefinitely	04-09-01	04-19-01
H1022	Goodwin	STUDY 28-YEAR RETIREMENT/RETENTION INCENTIVES.	*HF Postponed Indefinitely	04-09-01	06-21-01
\$ H1077	Arnold	FIREFIGHTERS' AND RESCUE SQUAD WORKERS' RETIRE.	*HF Postponed Indefinitely	04-11-01	05-23-01
H1078	Arnold	STUDY FIREFIGHTERS' EARLY RETIREMENT	*HF Postponed Indefinitely	04-11-01	05-29-01
H1107	Pope	REMOVE CAP ON SICK LEAVE	HF Postponed Indefinitely	04-11-01	04-19-01
H1140	Sexton	NC NATIONAL GUARD PENSIONS.	HF Postponed Indefinitely	04-12-01	10-03-02
H1241	Redwine	SICK LEAVE/JUDICIAL RETIREMENT SYSTEM.	HF Postponed Indefinitely	04-12-01	05-16-01
H1255	Cox	INCREASE RETIREMENT BENEFITS.	*HF Postponed Indefinitely	04-12-01	05-22-01
H1324	Hackney	AMEND RETIREMENT	*HR Ch. SL 2001-426	04-12-01	05-29-01

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A bold line indicates the bill is an appropriation bill.

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North Carolina General Assembly
Through House Committee on
Pensions and Retirement

Date: 10/17/2002
Time: 14:41
Page: 002 of 003
Leg. Day: H-256/S-242

2001-2002 Biennium

Bill	Introducer	Short Title	Latest Action	In Date	Out Date
		DEFINITIONS.			
H1327	Underhill	RETIRED TEACHERS	HF Postponed	04-12-01	10-03-02
		RETURN TO TEACHING.	Indefinitely		
H1331	Oldham	RETIRED SCHOOL	*HF Postponed	04-12-01	06-25-01
		EMPLOYEES RETURN TO	Indefinitely		
		SCHOOLS.			
H1390	Nesbitt	RETIREMENT WITHDRAWAL	*HF Postponed	04-26-01	06-20-01
		SERVICE.	Indefinitely		
H1419	Wright	FIREFIGHTERS' &	HF Postponed	04-26-01	10-03-02
		RESCUE WORKERS'	Indefinitely		
		RETIREMENT.			
H1529=		WITHDRAWN RETIREMENT	*HF Postponed	06-05-02	07-08-02
		SERVICE.	Indefinitely		
H1558=		FIRE AND RESCUE	HF Postponed	06-06-02	10-03-02
		AMENDMENT.	Indefinitely		
H1588=		INCREASE FIRE AND	HF Postponed	06-06-02	07-10-02
		RESCUE PENSION.	Indefinitely		
H1594		LEGISLATIVE	HF Postponed	06-10-02	10-03-02
		RETIREMENT INCREASE.	Indefinitely		
H1602=		INCREASE RETIREMENT	HF Postponed	06-10-02	07-10-02
		BENEFITS.	Indefinitely		
H1605		TREAT RETIREMENT	HF Postponed	06-11-02	10-03-02
		CONTRIB. RATES	Indefinitely		
		EQUIVALENTLY.			
H1607		REPEAL LINCOLNTON	HR Ch. SL 2002-41	06-18-02	07-03-02
		FIREMEN'S SUPP.			
		RETIRE.			
H1617		REPEAL DISABILITY	HF Postponed	06-12-02	10-03-02
		RETIREMENT EXCLUSION.	Indefinitely		
H1618		FIRE AND RESCUE	HF Postponed	06-12-02	10-03-02
		DISABILITY AMENDMENT.	Indefinitely		
H1657		DURHAM FIREMEN'S	*HR Ch. SL 2002-114	06-13-02	07-17-02
		RETIREMENT.			
H1664=		JUDICIAL RETIREMENT/	H Ref To Com On	06-13-02	07-10-02
		GUARANTEED REFUNDS.	Pensions & Retirement and Aging		
H1666=		CHARLOTTE FIREMEN'S	HR Ch. SL 2002-43	06-13-02	07-10-02
		RETIREMENT SYSTEM.			
H1678=		RETIREMENT SYSTEM	H Ref To Com On	06-13-02	07-10-02
		CONFORMING CHANGES.	Pensions & Retirement and Aging		
H1722		PURCHASE OF WITHDRAWN	HF Postponed	06-13-02	10-03-02
		LOCAL SERVICE.	Indefinitely		
H1724		RETIREMENT/TENURE/	*HR Ch. SL 2002-110	06-13-02	07-24-02
		TEACHER EXCHANGE			
		PROGRAMS.			
H1727		PENSION PROTECTION	HF Postponed	06-13-02	10-03-02
		ACT.	Indefinitely		
S0139=	Tony Rand	LOCAL FLEX. REGARDING	*HR Ch. SL 2001-462	06-20-01	07-18-01
		CHARTER SCH. TEACHERS.			
S0158	Aaron W. Plyler	REPEAL MONROE	*HR Ch. SL 2001-70	04-18-01	05-10-01
		FIREMEN'S SUPP.			
		RETIRE. FUND.			
S0544	Allen H. Wellons	CORRECT HENDERSON	*HR Ch. SL 2001-71	04-17-01	05-10-01

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North Carolina General Assembly
Through House Committee on
Pensions and Retirement

Date: 10/17/2002
Time: 14:41
Page: 003 of 003
Leg. Day: H-256/S-242

2001-2002 Biennium

Bill	Introducer	Short Title	Latest Action	In Date	Out Date
		FIREMEN'S SUPP. RETIRE.			
219		GASTONIA POLICEMEN'S RETIREMENT.	*HR Ch. SL 2002-130	07-30-02	10-01-02
S1232=		FIRE AND RESCUE AMENDMENT.	*HR Ch. SL 2002-113	07-08-02	07-17-02
S1238=		WITHDRAWN RETIREMENT SERVICE.	*HR Ch. SL 2002-153	07-15-02	07-17-02
S1429=		RETIREMENT SYSTEM CONFORMING CHANGES.	*HR Ch. SL 2002-71	07-15-02	07-17-02
\$ S1443		FACILITATE JOB SHARING BY TEACHERS.	*H Pres. To Gov. 10/ 3/2002	09-04-02	09-05-02

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AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**Wednesday, July 3, 2002
Room 415 Legislative Office Building
10:00 A.M.**

OPENING REMARKS

**Representative Dan Barefoot, Presiding ~~Chair~~
Pensions and Retirement Committee**

AGENDA ITEMS

**HB 1529 WITHDRAWN RETIREMENT SERVICE
 Representative Russell Tucker, Sponsor**

**HB 1558 FIRE AND RESCUE AMENDMENT
 Representative Phil Baddour, Sponsor**

*Pulled at request
of Rep. Baddour*

**HB 1607 REPEAL LINCOLNTON FIREMEN'S SUPP. RETIRE.
 Representative Dan Barefoot, Sponsor**

ADJOURNMENT

HOUSE PENSIONS AND RETIREMENT COMMITTEE

July 3, 2002

Minutes

The House Committee on Pensions and Retirement met on Wednesday, July 3, 2002 in Room 415 of the Legislative Office Building at 10:00 AM. The following members were present: Representatives Barefoot and Cox, Co-Chairs; Representative McCombs, Vice-Chair; and Representatives Rogers, Shubert, Starnes, and G. Wilson. Stanley Moore, Fiscal Research, and Theresa Matula, Staff Counselor, were in attendance. A Visitor Registration list is attached and made part of these minutes, (Attachment 1).

Representative Barefoot called the meeting to order and introduced the Pages serving the committee: Stephen Parks of Lenoir County, sponsored by Representative Jean Preston; Katie Mills of Cumberland County, sponsored by Representative Mia Morris; Siri Jones of Lincoln County, sponsored by Representative Joe Kiser; and Jeff Parks of Lenoir County, sponsored by Representative Jean Preston.

The following bills were considered:

Representative Tucker was recognized to explain **House Bill 1529, A BILL TO BE ENTITLED AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM AND TO CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO PURCHASE WITHDRAWN SERVICE**, (Attachment II). Representative Tucker explained the bill would change the retirement laws so that the local retirement system is the same as the state retirement system when it comes to purchasing withdrawn service. He pointed out that the state system was changed last year to allow purchase after five years of returned work. It also offered the method of calculating the pay back. This bill would bring the local governmental system in compliance with the state system.

A fiscal note prepared by Stanley Moore, Fiscal Research, and a summary prepared by Ms. Cochran-Brown, Staff Attorney, (Attachments III and IV), are included in the attachments to these minutes.

Representative Starnes asked if an employee buys back service, is the retirement benefit calculated as if he never left? Stanley Moore replied that if a person comes to work for some period of time, they quit, withdraw their money, then come back another period of time – once they have worked for five years, they can restore that service that they withdrew, then all of that is calculated in the formula for determining his eligibility to retire and how much benefit he would actually get. He added that based on that experience in the state system from what has happened since last fall until now, the actuary estimated would be about 900 people a year doing this and would be about \$9 million a year. Also, there are actuary gains in the system to handle all this.

Representative Cox offered two amendments, (Attachments V and VI), and moved for the adoption. The motion carried. Amendment #1 would provide funds for the treasurer's office to fund eight two-year time-limited positions to implement the provisions of this bill. Amendment #2 would make a technical change in House Bill 1529.

Michael Williamson, Director of the State Systems Retirement Division, spoke in support of the bill.

Representative Shubert moved the amendments for HB 1529 be rolled into a committee substitute, and that the proposed committee substitute be given a favorable report, and the original bill be given an unfavorable report and the proposed committee substitute, (Attachment VII), be referred to Appropriations. The motion carried.

The Chair stated that **HB 1558, A BILL TO BE ENTITLED AN ACT TO ALLOW MEMBERS OF THE NORTH CAROLINA FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND WITH AT LEAST TEN YEARS OF SERVICE TO CONTINUE AS MEMBERS AFTER THE TAKEOVER OF A VOLUNTEER DEPARTMENT BY A CITY OR COUNTY** had been postponed at the request of the bill's sponsor, Representative Baddour.

Representative Cox was asked to preside over the next portion of the meeting for Representative Barefoot, bill sponsor, to explain **HOUSE Bill 1607, A BILL TO BE ENTITLED AN ACT TO REPEAL THE LINCOLNTON FIREMEN'S SUPPLEMENTAL RETIREMENT FUND**, (Attachment VIII) He stated there would be no cost to the state in North Carolina, that it basically is asking for some flexibility for the local supplemental retirement fund in Lincoln County. It has accrued some actuarial gains and funds time to time. He added that they seek an increase, and rather than have to come to the General Assembly it would go through the North Carolina State Firemen's Association.

A fiscal note prepared by Stanley Moore, Fiscal Research, and a summary prepared by Ms. Cochran-Brown, Staff Attorney, are included in the attachments, (Attachments IX and X).

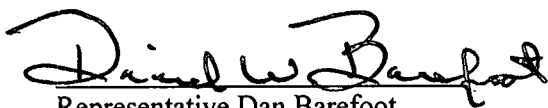
Representative Starnes asked if the bill had the support of the delegation; Representative Barefoot stated it has no opposition.

Upon the motion by Representative Starnes, the Committee voted to give House Bill 1607 a favorable report, (Attachment XI), as written.

Representative Shubert requested Michael Williamson of the State Treasurer's Office to bring a listing of the holdings of the funds similar to what private pension companies provide.

There being no further business, Chairman Barefoot adjourned the meeting at 10:40 A.M.

Respectfully submitted,


Representative Dan Barefoot
Chair Presiding


Jackie U. Pittman
Committee Assistant

AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**Wednesday, July 3, 2002
Room 415 Legislative Office Building
10:00 A.M.**

OPENING REMARKS

**Representative Dan Barefoot, Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

**HB 1529 WITHDRAWN RETIREMENT SERVICE
 Representative Russell Tucker, Sponsor**

**HB 1558 FIRE AND RESCUE AMENDMENT *Pushed*
 Representative Phil Baddour, Sponsor**

**HB 1607 REPEAL LINCOLNTON FIREMEN'S SUPP. RETIRE.
 Representative Dan Barefoot, Sponsor**

ADJOURNMENT

VISITOR REGISTRATION SHEET

Page 1 of 3

HOUSE PENSIONS AND RETIREMENT

JULY 3, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Jim Blackburn	NC Association of County Commissioners
John Goodman	MERCER ASSOCIATES
Katie Hult	NC State Watch
ELLIS HANKINS	NCLM
Michael Williamson	Retirement Systems Division
Marshall Barnes	Retirement Systems Division
Cam Coker	DPH HL
John Cyrus	N.C. State Grange
Molly Freeman	NCAE
Alice Harland	Ee
Ethelene Davis	Electricity

VISITOR REGISTRATION SHEET

Page 2 of 3

HOUSE PENSIONS AND RETIREMENT

JULY 3, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Paul Meyer	NCAAC
Colleen Kochanek	Hafer & Caldwell, P.A.
Wally Swanson	Capitol Group
Frank Lewis	OSBM
Bill Scoggin	Kennedy Consulting
Ardis Watkins	SEANC
Laura Harper	SEANC
Richard O'Brien	PFFPWC
David Anders	PFFPWC
James Ramon	CTA
Jan Lutz	NCAEA

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

JULY 3, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME _____

FIRM OR AGENCY AND ADDRESS

Ren A rock	County Comm. Assoc
------------	--------------------

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

1

HOUSE BILL 1529

Short Title: Withdrawn Retirement Service.

(Public)

Sponsors: Representatives Tucker; Barefoot, Bell, Cox, Gibson, Hackney, Haire, Hurley, Luebke, McAllister, McLawhorn, Underhill, Walker, Warner, Warren, Warwick, Willingham, and Womble.

Referred to: Pensions and Retirement.

June 5, 2002

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM AND TO CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO PURCHASE WITHDRAWN SERVICE.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-26(i) reads as rewritten:

"(i) Notwithstanding any other provision of this Chapter, any person who withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or 135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of ~~10~~ five years of prior and current membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with ~~sufficient interest added thereto to cover one half of the cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s), provided that he left service prior to July 1, 1975. interest compounded annually at the rate of six and one-half percent (6.5%) for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expense of handling which shall be determined by the Board of Trustees, and receive credit for the service forfeited at time of withdrawal(s).~~ Any person who leaves service after June 30, 1975, and who withdraws his contributions in accordance with G.S. 128-27(f) or 135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of prior and current membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such

1 ~~additional credit plus a fee to cover expense of handling which shall be determined by~~
2 ~~the Board of Trustees and receive credit for the service forfeited at time of~~
3 ~~withdrawal(s). These provisions shall apply equally to retired members who had~~
4 ~~attained 10 five years of prior and current membership service prior to retirement. Cost~~
5 ~~as used in this subsection shall mean the amount of money required to provide~~
6 ~~additional retirement benefits based on service credit allowed at the time any adjustment~~
7 ~~to the service credit of a member is made. The retirement allowance of a retired member~~
8 ~~who restores service under this subsection shall be increased the month following the~~
9 ~~month payment is received. The increase in the retirement allowance shall be the~~
10 ~~difference between the initial retirement allowance, under any optional allowance~~
11 ~~elected at the time of retirement, and the amount of the retirement allowance, under any~~
12 ~~optional allowance elected at the time of retirement, to which the retired member would~~
13 ~~have been entitled had the service not been previously forfeited, adjusted by any~~
14 ~~increases in the retirement accrual rate occurring between the member's date of~~
15 ~~retirement and the date of payment. The increase in the retirement allowance shall not~~
16 ~~include any adjustment for cost-of-living increases granted since the date of retirement.~~"

17 **SECTION 2. G.S. 128-26(k) reads as rewritten:**

18 "(k) Notwithstanding any language to the contrary of any provision of this section,
19 or of any repealed provision of this section that was repealed with the inchoate and
20 accrued rights preserved, all repayments and purchases of service credits, allowed under
21 the provisions of this section or of any repealed provision of this section that was
22 repealed with inchoate and accrued rights preserved, must be made within three years
23 after the member first becomes eligible to make such repayments and purchases. Any
24 member who does not repay or purchase service credits within said three years after first
25 eligibility to make such repayments and purchases may, under the same conditions as
26 are otherwise required, repay or purchase service credits provided that the repayment or
27 purchase equals the full cost of the service credits calculated on the basis of the
28 assumptions used for purchases of the actuarial valuation of the System's liabilities and
29 shall take into account the additional retirement allowance arising on account of such
30 additional service credit commencing at the earliest age at which such member could
31 retire on an unreduced retirement allowance as determined by the Board of Trustees
32 upon the advice of the consulting actuary. Notwithstanding the foregoing provisions of
33 this subsection that provide for the purchase of service credits, the terms "full cost",
34 "full liability", and "full actuarial cost" include assumed annual post-retirement
35 allowance increases, as determined by the Board of Trustees, from the earliest age at
36 which a member could retire on an unreduced service allowance. Notwithstanding the
37 foregoing, on and after January 1, 2003, the provisions of this subsection shall not apply
38 to the repayment of contributions withdrawn pursuant to subsection (i) of this section."

39 **SECTION 3. G.S. 128-26(n) is repealed.**

40 **SECTION 4. G.S. 135-4(k) reads as rewritten:**

41 "(k) Notwithstanding any other provision of this Chapter, any person who
42 withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S.
43 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement
44 System and who subsequently returns to service may, upon completion of five years of

1 membership service, repay in a total lump sum any and all of the accumulated
2 contributions previously withdrawn with interest compounded annually at the rate of six
3 and one-half percent (6.5%) for each calendar year from the year of withdrawal to the
4 year of repayment plus a fee to cover expense of handling which shall be determined by
5 the Board of Trustees, and receive credit for the service forfeited at time of withdrawal.
6 These provisions shall apply equally to retired members who had attained five years of
7 membership service prior to retirement. ~~The retirement benefit shall be increased the~~
8 ~~month following the receipt of payment. The retirement benefit shall not include any~~
9 ~~benefit as a result of retirement adjustments or cost of living increases granted since the~~
10 ~~date of retirement. The retirement benefit will be calculated based in the accrual rate at~~
11 ~~the time of purchase. The retirement allowance of a retired member who restores service~~
12 under this subsection shall be increased the month following the month payment is
13 received. The increase in the retirement allowance shall be the difference between the
14 initial retirement allowance, under any optional allowance elected at the time of
15 retirement, and the amount of the retirement allowance, under any optional allowance
16 elected at the time of retirement, to which the retired member would have been entitled
17 had the service not been previously forfeited, adjusted by any increases in the retirement
18 accrual rate occurring between the member's date of retirement and the date of payment.
19 The increase in the retirement allowance shall not include any adjustment for cost-of-
20 living increases granted since the date of retirement.

21 Notwithstanding any provision to the contrary, a law enforcement officer who was
22 transferred from the Law Enforcement Officers' Retirement System to this Retirement
23 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
24 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
25 or G.S. 135-5(f) for non-law enforcement service and who has five years or more of
26 membership service standing to his credit may repay in a total lump sum the
27 accumulated contributions previously withdrawn with interest compounded annually at
28 the rate of six and one-half percent (6.5%) for each calendar year from the year of
29 withdrawal to the year of repayment plus a fee to cover expense of handling which shall
30 be determined by the Board of Trustees, and receive credit for the service forfeited at
31 time of withdrawal. ~~The retirement benefit shall be increased the month following the~~
32 ~~receipt of payment. The retirement benefit shall not include any benefit as a result of~~
33 ~~retirement adjustments or cost of living increases granted since the date of retirement.~~
34 ~~The retirement benefit will be calculated based in the accrual rate at the time of~~
35 ~~purchase. withdrawal(s). The retirement allowance of a retired member who restores~~
36 service under this subsection shall be increased the month following the month payment
37 is received. The increase in the retirement allowance shall be the difference between the
38 initial retirement allowance, under any optional allowance elected at the time of
39 retirement, and the amount of the retirement allowance, under any optional allowance
40 elected at the time of retirement, to which the retired member would have been entitled
41 had the service not been previously forfeited, adjusted by any increases in the retirement
42 accrual rate occurring between the member's date of retirement and the date of payment.
43 The increase in the retirement allowance shall not include any adjustment for cost-of-
44 living increases granted since the date of retirement."

1

SECTION 5. This section becomes effective January 1, 2003.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

Tony C. Goldman, Director
Administrative Division
Room 9, Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
(919) 733-7500

Gerry F. Cohen, Director
Bill Drafting Division
Suite 401, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6660

James D. Johnson, Director
Fiscal Research Division
Suite 619, LOB
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Dennis W. McCarty, Director
Information Systems Division
Suite 400, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

June 29, 2002

MEMORANDUM

TO: Representative Russell Tucker

FROM: Stanley Moore *Sm*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1529

Re: Allows for the purchase of withdrawn service in the Local Governmental Employees' Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1529

SHORT TITLE: Withdrawn Retirement Service

SPONSOR(S): Representative Tucker

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System and Teachers' & State Employees' Retirement System

FUNDS AFFECTED: Local Funds

BILL SUMMARY: The bill allows any member of the Local Governmental Employees' Retirement System with five or more years of service to purchase the withdrawn service by paying the amount withdrawn plus 6 1/2% interest compounded annually from year of withdrawal to year of repayment. The bill allows the purchase by repealing the existing law, which allows members to purchase withdrawn service after they have returned and worked for 10 years. It also repeals the requirement that the purchase of withdrawn service must be made within three years and repeals the "full cost" method of calculating withdrawn service for member who withdrew after July 1, 1974, and repeals the provision for the "full actuarial cost" for members beyond the three year window and those with more than five years and less than ten years. The bill makes some technical clarifying changes to the Teachers' & State Employees' Retirement System but no cost to these changes.

EFFECTIVE DATE: January 1, 2003

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Buck Consultants estimates the annual cost to be \$9 million based on an estimated 900 members making the purchase. They also estimate the cost will be approximately \$10 million per year for every additional 1,000 members who purchase service. These cost estimates are based on experience of Teachers' and State Employees' Retirement System since similar legislation was enacted during the 2001 Session.

Hartman & Associates estimates the annual cost to be \$8.9 million based on experience of Teachers' and State Employees' Retirement System since similar legislation was enacted during the 2001 Session.

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

ASSUMPTIONS AND METHODOLOGY:

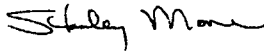
Local Governmental Employees' Retirement System

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, 2000, actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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: (919) 733-4910

PREPARED BY: Stanley Moore



APPROVED BY: James D. Johnson



DATE: June 28, 2002

BUCK CONSULTANTS

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1388

House Bill 1529

Dear Mr. Williamson:

We have received your letter of June 12 regarding House Bill 1529, which affects the Local Governmental Employees' Retirement System and the Teachers' and State Employees' Retirement System.

This proposed legislation appears to allow active and retired members to purchase withdrawn service under the Local Governmental Employees' Retirement System after completing 5 years of prior and current membership service. In order to receive credit for the service forfeited at the time of withdrawal, the member would be required to repay any and all of the accumulated contributions previously withdrawn with 6-1/2% interest compounded annually for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expenses. This legislation further appears to amend Section 128-26(k) to remove the requirement that the purchase or repayment be made within 3 years after the member first becomes eligible. This legislation further appears to repeal Section 128-26(h) that provides for members with 5 years of membership service, to purchase credit under the full actuarial cost method. Lastly, this legislation appears to amend the provisions of G.S. 135-4(k) affecting the Teachers' and State Employees' Retirement System relative to the recalculation of a retirement allowance of a retired member purchasing withdrawn service credits under that amended statute.

Based on information we received from the Retirement System for members who purchased service under similar provisions of the Teachers' and Employees' Retirement System, we estimate that approximately 900 members of the Local Governmental Employees' Retirement System will purchase withdrawn service under these proposed provisions. The estimated annual cost of this legislation is \$9,000,000. For each additional 1,000 members who purchase service due to this legislation, the cost to the System would be approximately \$10,000,000 annually.

In the event the bill is amended to provide for a refund to members who have previously purchased withdrawn service at "full cost" or full actuarial cost, the cost to the Local Governmental Retirement System could be substantial, since thousands of members and beneficiaries have purchased service credits under these provisions.

Mr. Michael L. Williamson
June 19, 2002
Page 2

The impact of this legislation on the Teachers' and Employees' Retirement System would be negligible.

As a technical observation, this legislation includes no funding provision. There would also be an additional administrative burden and expense imposed upon the System due to anticipated increases in work volumes.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

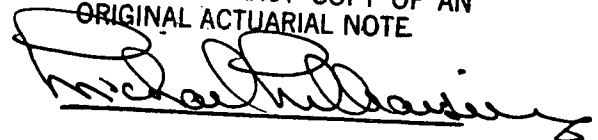


Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

P:\North Carolina Local Gov\2002\Documents\Correspondence\House Bill 1529.doc

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

K V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 26, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1529: An Act to Allow the Purchase of Withdrawn Service in the LGERS and to Correct the Calculation of Benefits for Members of the TSERS Who Purchase Withdrawn Service

Dear Mr. Moore:

This bill amends G.S. 128-26(i) and G.S. 128-26(k) to modify the provisions for purchasing credits for service for which the employee has previously withdrawn his contributions in the Local Governmental Employees' Retirement System (LGERS). Currently, an employee who terminates his service, withdraws his contributions and subsequently returns to service may purchase the prior service credits upon completion of ten years of membership service. For members who left service prior to July 1, 1975, the repayment amount equals the accumulated contributions previously withdrawn with sufficient interest added thereto to cover one-half the cost of providing such credit. For members who left service after June 30, 1975, the repayment amount equals the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such credit. If repayment is not made within three years after the member becomes eligible to purchase the prior service credits, he is then required to repay the full actuarial cost for the service credits.

Under this bill, a member would be eligible to purchase prior service credits for withdrawn service after five years of membership. The repayment amount would equal the accumulated contributions previously withdrawn plus interest at a rate of 6.5% per year since the date of withdrawal for all employees. The increase in the repayment amount for purchases made more than three years after becoming eligible would not apply for this purpose. This act becomes effective January 1, 2003.

This bill also amends G.S. 135-4(k) to correct the calculation of a

Mr. Stanley Moore
June 26, 2002

Page 2

retired member who purchases service credits in the Teachers' and State Employees' Retirement System (TSERS). This bill provides that the retirement allowance based on purchased service will be adjusted by any increases in the accrual rate occurring between the member's date of retirement and the date of repayment.

The effect of this change in the LGERS would be a decrease in the amount paid by certain members for purchase of prior service credits and an increase in the number of members eligible to make such purchases. The incidence rate for purchases is expected to increase due to:

- a reduction in the repayment cost,
- elimination of the required repayment window, and
- expansion in the availability by reducing eligibility to five years.

The estimated cost of this bill is dependent on the number of members who exercise the option to purchase withdrawn service. You provided data showing the number of LGERS members with withdrawn service and data showing the number of TSERS members who purchased service following a similar change in that system last year. Based on this information, we have estimated approximately 800 members will purchase service credits in 2003. The financial impact in the LGERS is an estimated annual cost of \$8,860,000. If the number of members exercising this option increases or decreases in future years, the cost is expected to change proportionately.

This estimate is based on the most recent actuarial valuation prepared as of December 31, 2000, and information provided by you regarding the number and amount of purchases of prior service credits in the TSERS during 2001, and 6,874 eligible members in the LGERS.

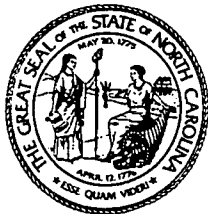
If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



HOUSE BILL 1529: Withdrawn Retirement Service

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 3, 2002
Version: 1st Edition

Introduced by: Representative Tucker
Summary by: Theresa Matula
Committee Staff

SUMMARY: *House Bill 1529 amends the conditions for the purchase of withdrawn service in the LGERS and clarifies withdrawn service repayment provisions for retired TSERS members. A technical amendment is needed to change the effective date to read, "This act (currently "section") becomes effective January 1, 2003."*

BILL ANALYSIS:

Local Governmental Employees' Retirement System (LGERS)

Section 1. HB 1529 amends G.S. 128-26(i) to allow any person who withdrew contributions under specified statutory provisions from the LGERS, or the Teachers' and State Employees' Retirement System (TSERS), or the Law Enforcement Officers' Retirement System, and returns to service may, upon completion of five years (*previously 10 years*) of prior¹ and current membership service, repay in a total lump sum all accumulated contributions previously withdrawn with 6.5% interest compounded annually for each calendar year from the year of withdrawal to the year of repayment plus a fee. This amended provision applies equally to retired members who had attained five years (*previously 10 years*) of prior and current membership service prior to retirement. The increase in the retirement allowance² will be adjusted by any increases in the retirement accrual rate occurring between the member's date of retirement and the date of payment, but will not include any adjustment for cost-of-living increases granted since retirement. Provisions for leaving service prior to and after July 1, 1975 are repealed.

Section 2. G.S. 128-26(k) currently requires that all repayments and purchases of service credits be made within three years after the member becomes eligible or the member must repay or purchase service credits at the full actuarial cost. HB 1529 amends G.S. 128-26(k) to specify that on and after January 1, 2003, the provisions of the subsection shall not apply to the repayment of contributions withdrawn pursuant to G.S. 126-26(i).

Section 3. HB 1529 repeals G.S. 128-26(n) which currently allows any person who withdrew contributions under specified statutory provisions from the LGERS, the TSERS, or the Law Enforcement Officers' Retirement System, and returns to service may, upon completion of five years of membership service, purchase the withdrawn service by making a lump sum payment at full actuarial cost. The repeal of G.S. 128-26(n) is a conforming change to the amendments in Section 1.

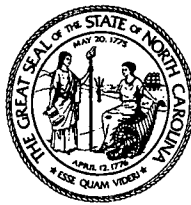
Teachers' and State Employees' Retirement System (TSERS)

Section 4. HB 1529 amends G.S. 135-4(k) to clarify that for retired members who repay withdrawn contributions, the retirement allowance shall be increased the month following *the month* payment is received (*previously, increased the month following receipt of payment*). Additionally, it clarifies that the increase in the retirement allowance² will be adjusted by any increases in the retirement accrual rate occurring between the member's date of retirement and the date of payment, but will not include any adjustment for cost-of-living increases granted since retirement.

Section 5. A technical amendment is needed so this section will read, "This *act* becomes effective January 1, 2003."

¹ Under G.S. 128-21(17) "prior service" means the service of a member rendered before the date he becomes a member of the system, certified on his prior service certificate.

² The increase in the retirement allowance is the difference between the initial retirement allowance and the amount of the retirement allowance to which the retired member would have been entitled had the service not been previously forfeited.



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
House Bill 1529

AMENDMENT NO. _____
(to be filled in by
Principal Clerk)

H1529-ASH-3 [v.1]

Page 1 of 1

Date July 3, 2002

Comm. Sub. [NO]
Amends Title [YES]
First Edition

Representative *Cox*

1 moves to amend the bill on page 1, lines 3-6
2 by rewriting those lines to read:

3 "LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, TO
4 CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE
5 TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO
6 PURCHASE WITHDRAWN SERVICE, AND TO INCREASE
7 APPROPRIATIONS TO THE RETIREMENT SYSTEMS DIVISION.";

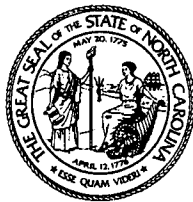
8
9 and on page 4, line 1, by inserting the following new section:

10 "SECTION 4.1. The appropriation to the Department of State Treasurer,
11 Retirement Systems Division is increased in the amount of two hundred forty-seven
12 thousand seven hundred thirteen dollars (\$247,713) to fund eight two-year time-limited
13 positions to implement the provisions of this act."

SIGNED _____
Amendment Sponsor

SIGNED _____
Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
 House Bill 1529

H1529-ASH-2 [v.1]

AMENDMENT NO. _____
 (to be filled in by
 Principal Clerk)

Page 1 of 1

Date July 3, 2002

Comm. Sub. [NO]
 Amends Title [NO]
 First Edition

Representative *Cox*

- 1 moves to amend the bill on page 4, line 1
- 2 by rewriting the line to read:
- 3 "SECTION 5. This act becomes effective January 1, 2003."

SIGNED *[Signature]*
 Amendment Sponsor

SIGNED _____
 Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report from standing committee is presented by Representatives **BAREFOOT AND COX**, Chairs, for the Committee on **PENSIONS AND RETIREMENT**

-
- ☐ Committee Substitute for
H.B. 1529 A BILL TO BE ENTITLED AN ACT TO ALLOW THE PURCHASE OF
WITHDRAWN SERVICE IN THE LOCAL GOVERNMENTAL EMPLOYEES'
RETIREMENT SYSTEM AND TO CORRECT THE CALCULATION OF BENEFITS FOR
MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
WHO PURCHASE WITHDRAWN SERVICE.
- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☒ With a favorable report as to committee substitute bill (~~# 1529~~), ☒ which changes the title,
unfavorable as to (original bill) (~~Committee Substitute Bill # 1529~~), (and recommendation
that the committee substitute bill be re-referred to the Committee on Appropriations.)
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1529
PROPOSED COMMITTEE SUBSTITUTE H1529-PCS8351-SH-26

Short Title: Withdrawn Retirement Service.

(Public)

Sponsors:

Referred to:

June 5, 2002

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, TO CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO PURCHASE WITHDRAWN SERVICE, AND TO INCREASE APPROPRIATIONS TO THE RETIREMENT SYSTEMS DIVISION.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-26(i) reads as rewritten:

"(i) Notwithstanding any other provision of this Chapter, any person who withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or 135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of ~~10~~ five years of prior and current membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with ~~sufficient interest added thereto to cover one half of the cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s), provided that he left service prior to July 1, 1975.~~ interest compounded annually at the rate of six and one-half percent (6.5%) for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expense of handling which shall be determined by the Board of Trustees, and receive credit for the service forfeited at time of withdrawal(s). ~~Any person who leaves service after June 30, 1975, and who withdraws his contributions in accordance with G.S. 128-27(f) or 135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of prior and current membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such~~

1 ~~additional credit plus a fee to cover expense of handling which shall be determined by~~
2 ~~the Board of Trustees and receive credit for the service forfeited at time of~~
3 ~~withdrawal(s). These provisions shall apply equally to retired members who had~~
4 ~~attained 10 five years of prior and current membership service prior to retirement. Cost~~
5 ~~as used in this subsection shall mean the amount of money required to provide~~
6 ~~additional retirement benefits based on service credit allowed at the time any adjustment~~
7 ~~to the service credit of a member is made. The retirement allowance of a retired member~~
8 ~~who restores service under this subsection shall be increased the month following the~~
9 ~~month payment is received. The increase in the retirement allowance shall be the~~
10 ~~difference between the initial retirement allowance, under any optional allowance~~
11 ~~elected at the time of retirement, and the amount of the retirement allowance, under any~~
12 ~~optional allowance elected at the time of retirement, to which the retired member would~~
13 ~~have been entitled had the service not been previously forfeited, adjusted by any~~
14 ~~increases in the retirement accrual rate occurring between the member's date of~~
15 ~~retirement and the date of payment. The increase in the retirement allowance shall not~~
16 ~~include any adjustment for cost-of-living increases granted since the date of retirement."~~

17 **SECTION 2.** G.S. 128-26(k) reads as rewritten:

18 "(k) Notwithstanding any language to the contrary of any provision of this section,
19 or of any repealed provision of this section that was repealed with the inchoate and
20 accrued rights preserved, all repayments and purchases of service credits, allowed under
21 the provisions of this section or of any repealed provision of this section that was
22 repealed with inchoate and accrued rights preserved, must be made within three years
23 after the member first becomes eligible to make such repayments and purchases. Any
24 member who does not repay or purchase service credits within said three years after first
25 eligibility to make such repayments and purchases may, under the same conditions as
26 are otherwise required, repay or purchase service credits provided that the repayment or
27 purchase equals the full cost of the service credits calculated on the basis of the
28 assumptions used for purchases of the actuarial valuation of the System's liabilities and
29 shall take into account the additional retirement allowance arising on account of such
30 additional service credit commencing at the earliest age at which such member could
31 retire on an unreduced retirement allowance as determined by the Board of Trustees
32 upon the advice of the consulting actuary. Notwithstanding the foregoing provisions of
33 this subsection that provide for the purchase of service credits, the terms "full cost",
34 "full liability", and "full actuarial cost" include assumed annual post-retirement
35 allowance increases, as determined by the Board of Trustees, from the earliest age at
36 which a member could retire on an unreduced service allowance. Notwithstanding the
37 foregoing, on and after January 1, 2003, the provisions of this subsection shall not apply
38 to the repayment of contributions withdrawn pursuant to subsection (i) of this section."

39 **SECTION 3.** G.S. 128-26(n) is repealed.

40 **SECTION 4.** G.S. 135-4(k) reads as rewritten:

41 "(k) Notwithstanding any other provision of this Chapter, any person who
42 withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S.
43 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement
44 System and who subsequently returns to service may, upon completion of five years of

1 membership service, repay in a total lump sum any and all of the accumulated
2 contributions previously withdrawn with interest compounded annually at the rate of six
3 and one-half percent (6.5%) for each calendar year from the year of withdrawal to the
4 year of repayment plus a fee to cover expense of handling which shall be determined by
5 the Board of Trustees, and receive credit for the service forfeited at time of withdrawal.
6 These provisions shall apply equally to retired members who had attained five years of
7 membership service prior to retirement. ~~The retirement benefit shall be increased the~~
8 ~~month following the receipt of payment. The retirement benefit shall not include any~~
9 ~~benefit as a result of retirement adjustments or cost of living increases granted since the~~
10 ~~date of retirement. The retirement benefit will be calculated based in the accrual rate at~~
11 ~~the time of purchase. The retirement allowance of a retired member who restores service~~
12 under this subsection shall be increased the month following the month payment is
13 received. The increase in the retirement allowance shall be the difference between the
14 initial retirement allowance, under any optional allowance elected at the time of
15 retirement, and the amount of the retirement allowance, under any optional allowance
16 elected at the time of retirement, to which the retired member would have been entitled
17 had the service not been previously forfeited, adjusted by any increases in the retirement
18 accrual rate occurring between the member's date of retirement and the date of payment.
19 The increase in the retirement allowance shall not include any adjustment for cost-of-
20 living increases granted since the date of retirement.

21 Notwithstanding any provision to the contrary, a law enforcement officer who was
22 transferred from the Law Enforcement Officers' Retirement System to this Retirement
23 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
24 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
25 or G.S. 135-5(f) for non-law enforcement service and who has five years or more of
26 membership service standing to his credit may repay in a total lump sum the
27 accumulated contributions previously withdrawn with interest compounded annually at
28 the rate of six and one-half percent (6.5%) for each calendar year from the year of
29 withdrawal to the year of repayment plus a fee to cover expense of handling which shall
30 be determined by the Board of Trustees, and receive credit for the service forfeited at
31 time of withdrawal. ~~The retirement benefit shall be increased the month following the~~
32 ~~receipt of payment. The retirement benefit shall not include any benefit as a result of~~
33 ~~retirement adjustments or cost of living increases granted since the date of retirement.~~
34 ~~The retirement benefit will be calculated based in the accrual rate at the time of~~
35 ~~purchase. withdrawal(s). The retirement allowance of a retired member who restores~~
36 service under this subsection shall be increased the month following the month payment
37 is received. The increase in the retirement allowance shall be the difference between the
38 initial retirement allowance, under any optional allowance elected at the time of
39 retirement, and the amount of the retirement allowance, under any optional allowance
40 elected at the time of retirement, to which the retired member would have been entitled
41 had the service not been previously forfeited, adjusted by any increases in the retirement
42 accrual rate occurring between the member's date of retirement and the date of payment.
43 The increase in the retirement allowance shall not include any adjustment for cost-of-
44 living increases granted since the date of retirement."

1 **SECTION 4.1.** The appropriation to the Department of State Treasurer,
2 Retirement Systems Division, is increased in the amount of two hundred forty-seven
3 thousand seven hundred thirteen dollars (\$247,713) to fund eight two-year time-limited
4 positions to implement the provisions of this act.

5 **SECTION 5.** This act becomes effective January 1, 2003.

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

1

HOUSE BILL 1607

Short Title: Repeal Lincolnton Firemen's Supp. Retire.

(Local)

Sponsors: Representative Barefoot.

Referred to: Local Government I.

June 11, 2002

A BILL TO BE ENTITLED

AN ACT TO REPEAL THE LINCOLNTON FIREMEN'S SUPPLEMENTAL
RETIREMENT FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 2 of Article V of the Charter of Lincolnton, as revised
and consolidated by Section 1 of Chapter 341 of the 1979 Session Laws, is repealed.

SECTION 2. All funds remaining in the Lincolnton Firemen's Supplemental
Retirement Fund are transferred to the Board of Trustees of the Firemen's Local Relief
Fund of the City of Lincolnton, to be held and administered as provided in Article 84 of
Chapter 58 of the General Statutes.

SECTION 3. This act is effective when it becomes law.



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-7044

Tom J. Goldman, Director
Administrative Division
Room 9, Legislative Building
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Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

June 17, 2002

MEMORANDUM

TO: Representative Daniel Barefoot

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on House Bill 1607

Re: Repeal of the Lincolnton Firemen's Supplemental Retirement Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Co-Chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, House Bill 1607, June 13, 2002



**North Carolina General Assembly
Legislative Services Office**

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June 13, 2002

Representative Daniel Barefoot
North Carolina House of Representative
Raleigh, North Carolina 27601

Re: Actuarial/Fiscal Note (Lincolnton Firemen's Supplemental Retirement Fund)

Dear Representative Barefoot:

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: Repeal of the Lincolnton Firemen's Supplemental Retirement Fund.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: The Lincolnton Firemen's Supplemental Retirement Fund is presently financed by the transfer of all earnings on investments from the City of Lincolnton Local Firemen's Relief Fund. The Retirement Fund presently provides supplemental retirement benefits to those retired firemen who are age 55 with 20 years of service. One share is allowed for each year of service with the maximum benefit of \$600 per year.

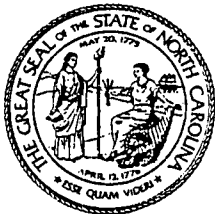
With the repeal of the Retirement Fund, all funds will be transferred from the Lincolnton Firemen's Supplemental Retirement Fund back to the City of Lincolnton Local Firemen's Relief Fund to be used as allowed by G. S. 58-84-35.

Actuarial Endorsement:

Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore
Fiscal Analyst
Fiscal Research Division



HOUSE BILL 1607: Repeal Lincolnton Firemen's Supp. Retire.

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: July 3, 2002
Version: 1st Edition

Introduced by: Representative Barefoot
Summary by: Theresa Matula
 Committee Staff

SUMMARY: *House Bill 1607 repeals the Lincolnton Firemen's Supplemental Retirement Fund.*

CURRENT LAW: In 1979, the General Assembly established a supplemental firemen's retirement fund for those qualified members from Lincolnton. As created, the fund was to be administered as a separate fund called the Supplemental Retirement Fund.

BILL ANALYSIS:

Section 1 of House Bill 1607 repeals Chapter 2 of Article V of the Charter of Lincolnton, as revised and consolidated by Section 1 of Chapter 341 of the 1979 Session Laws.

Section 2 of House Bill 1607 directs the transfer of all funds remaining in the Lincolnton Firemen's Supplemental Retirement Fund to the Board of Trustees of the Firemen's Local Relief Fund of the City of Lincolnton to be held and administered as provided in Article 84 of Chapter 58 of the General Statutes. Upon repealing the Supplemental Retirement Fund, the money remaining will revert to the Lincolnton Local Firemen's Relief Fund and be administered pursuant to G.S. 58-84-35. The money could be used by to create another, separate, supplemental retirement fund, which would be overseen by the North Carolina State Firemen's Association.

Section 3 established that this act is effective when it becomes law.

BACKGROUND: Similar legislation repealing a local supplemental retirement fund has previously been enacted by the General Assembly for: Cherryville, Forest City, Hendersonville, Laurinburg, Marion, Morehead City, and Raleigh.

R. Erika Churchill substantially contributed to this summary.

2001 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **BAREFOOT AND COX** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

- ☐ Committee Substitute for
H.B. 1607 A BILL TO BE ENTITLED AN ACT TO REPEAL THE LINCOLNTON
FIREMEN'S SUPPLEMENTAL RETIREMENT FUND.
- ☒ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title,
unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation
that the committee substitute bill #) be re-referred to the Committee on .)
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

MINUTES
HOUSE COMMITTEE ON PENSIONS AND RETIREMENT
July 10, 2002

The House Committee on PENSIONS AND RETIREMENT met on Wednesday, July 10, 2002 at noon in Room 415 in the Legislative Office Building. Members present were Representatives Barefoot and Cox, Co-Chairs; Vice Chairman McCombs; Representatives Barbee, Hensley, Shubert, Starnes, G. Wilson and Yongue. The Visitor Registration sheet is attached. Other attachments are listed and have been made a part of the minutes.

Representative Cox called the meeting to order and introduced the pages serving the committee: Miss Brooke Fisher of Buncombe County, sponsored by Representative Barbee and Miss Katie Patterson of Wake County, sponsored by Representative Hurley. Representative Cox then requested that Representative Barefoot chair the meeting; because a bill he sponsored is on the agenda.

HOUSE BILL 1602, Increase Retirement Benefits, sponsored by Representatives Barefoot, Cox and Buchanan, was before the committee. Representative Cox explained the bill and that it was in this committee to be perfected before it goes before the full House. He explained that the bill addresses concerns regarding teachers', judicial, local governments and legislative retirements, and will increase the retirement benefits for those who qualify. Representative Cox then called on staff attorney, Stanley Moore to further explain the bill if any further explanation is needed. Representative Barefoot asked if there were further questions. Representative Hensley then asked Mr. Moore if Section 5 of the bill includes "that crazy stuff the Senate put in." Mr. Moore responded that he was not aware of what "crazy stuff" Representative Hensley referred; however, the section regarding judicial allowances was still in the bill.

Representative McCombs moved to adopt the bill, motion carried. He moved for a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations.

HOUSE BILL 1588, Increase Fire and Rescue Pension, sponsored by Representative Cox, was before the committee for consideration. Representative Cox was recognized to explain the bill. He explained the bill would allow for an adjustment in the pensions of Fire and Rescue personnel. He then asked staff to answer any questions and for the public to comment.

Representative Tolson asked if the retirement system was sound enough to accommodate the increase. Mr. Moore stated that the system was budgeted for \$12 million and only \$5 million were needed. Representative Barefoot then called for any further questions. Representative Shubert moved for a favorable report and

recommendation that the bill be re-referred to the Committee on Appropriations. The motion carried.

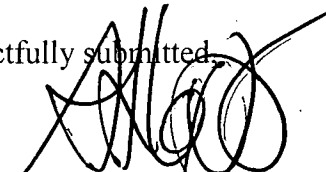
HOUSE BILL 1666, Charlotte Firemen's Retirement System, sponsored by Representative Alexander, was before the committee for consideration. Representative Alexander was asked to explain the bill. She explained that the bill amends the law to conform to provisions of the federal Economic Growth and Reconciliation Act and authorizes purchase of membership. Representative Cox calls for any questions. Representative Shubert moved for a favorable report to appropriations. Representative Starnes asked about after-tax contributions. He stated that they "become a nightmare after awhile if trying to mingle pre-tax and post-tax dollars." Karen Cochrane-Brown, Committee Counsel stated that there is a federal provision that allows this. Representative Starnes asked which fund other than the Roth allow for post-tax contributions. Representative Shubert then asked Representative Starnes why he was attempting to understand Congress. Representative Cox then called for a vote on the motion previously made by Representative Shubert that the bill be given a favorable report. The motion carried.

HOUSE BILL 1678, Retirement System Conforming Changes, sponsored by Representative Barefoot, was before the Committee for consideration. Representative Barefoot was asked to explain the bill. He explained the bill was the same as the previous bill that had been explained by Representative Alexander. Representative Cox asked if the committee had any questions. Representative Shubert moved that the bill be given a favorable vote and re-referred as necessary. Representative Cox called for a vote. The bill was given a favorable report.

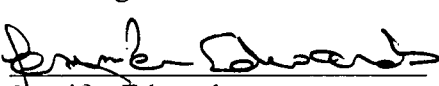
HOUSE BILL 1664, Judicial Retirement/Guaranteed Benefits, sponsored by Representative Barefoot. Representative Barefoot explained the bill and asked staff to make any comments necessary and highlight the possible impact. Representative Cox asked if the public had any questions. With none being presented, Representative Shubert moved for a favorable report, the motion carried.

There being no further business, Representative Cox adjourned the meeting.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman



Jennifer Edwards
Committee Assistant

Attachments

House Bill 1588
House Bill 1602
House Bill 1664
House Bill 1666
House Bill 1678

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

**Wednesday, July 10, 2002
Room 415 Legislative Office Building
10:00 am**

REPRESENTATIVE A. LESLIE COX, Jr. CHAIRING

I. CALL TO ORDER

II. WELCOME

III. INTRODUCTIONS

IV. BILLS TO BE CONSIDERED:

HB 1588 Increase Fire and Rescue Pension
Representative Leslie Cox, Sponsor

HB 1602 Increase Retirement Benefits
Representatives Barefoot, Buchanan and Cox, Sponsors

HB 1664 Judicial Retirement/Guaranteed Refunds
Representative Daniel Barefoot, Sponsor

HB 1666 Charlotte Firemen's Retirement System
Representative Martha Alexander, Sponsor

HB 1678 Retirement System Conforming Changes
Representative Daniel Barefoot, Sponsor

V. COMMENTS

VI. ADJOURN

VISITOR REGISTRATION SHEET

Pensions and Retirement

July 10, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Gordon A. Joyner	NCA REUS PO Box 1914 Goldsboro NC 27533
Tracy Brown	SEANC
Mike Tooman	NCAE
Frank Lewis	OSBM
BOYD CAUBLE	CITY OF CHARLOTTE
ELLIS HANKINS	NCLM
Katie Hunt	NC State Watch
Richard O'Brien	Prof. Fire Fighters & Paramedics of NC
Lijah Hammond	NC Ret Govt Emp Assn
Michael Williams	Treasurer's Office
Joanne Scherer	Treasurer's Office

VISITOR REGISTRATION SHEET

Pensions and Retirement

July 10, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Marshall Barnes	Department of State Treasurer
Ardis Watkins	SEANC
Laura Harper	SEANC
Shirley Bell	President - SEANC
Alice Garland	EC
David Andrees	PFFPWK
Elizabeth Dalton	Bonet Associates
Ethelene Davis	Electric Cities
Andrea Schrag	Rep. Alexander
Jane Argyr	SBE

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1602*

Short Title: Increase Retirement Benefits.

(Public)

Sponsors: Representatives Cox, Barefoot; and Buchanan.

Referred to: Pensions and Retirement.

June 10, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO ENHANCE THE BENEFITS PAYABLE FROM THE TEACHERS'
3 AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE CONSOLIDATED
4 JUDICIAL RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT
5 SYSTEM, AND THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT
6 SYSTEM.

7 The General Assembly of North Carolina enacts:

8 **SECTION 1.** G.S. 135-5(b18) reads as rewritten:

9 "(b18) Service Retirement Allowance of Members Retiring on or After July 1, 2000.
10 2000, but Before July 1, 2002. – Upon retirement from service in accordance with
11 subsection (a) or (a1) above, on or after July 1, 2000, but before July 1, 2002, a member
12 shall receive the following service retirement allowance.

13 (1) A member who is a law enforcement officer or an eligible former law
14 enforcement officer shall receive a service retirement allowance
15 computed as follows:

16 a. If the member's service retirement date occurs on or after his
17 55th birthday, and completion of five years of creditable service
18 as a law enforcement officer, or after the completion of 30 years
19 of creditable service, the allowance shall be equal to one and
20 eighty-one hundredths percent (1.81%) of his average final
21 compensation, multiplied by the number of years of his
22 creditable service.

23 b. If the member's service retirement date occurs on or after his
24 50th birthday and before his 55th birthday with 15 or more
25 years of creditable service as a law enforcement officer and
26 prior to the completion of 30 years of creditable service, his
27 retirement allowance shall be equal to the greater of:

28 1. The service retirement allowance payable under G.S.
29 135-5(b18)(1)a. reduced by one-third of one percent (

- 1/3 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 55th birthday; or
2. The service retirement allowance as computed under G.S. 135-5(b18)(1)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement.
- (2) A member who is not a law enforcement officer or an eligible former law enforcement officer shall receive a service retirement allowance computed as follows:
- a. If the member's service retirement date occurs on or after his 65th birthday upon the completion of five years of membership service or after the completion of 30 years of creditable service or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-one hundredths percent (1.81%) of his average final compensation, multiplied by the number of years of creditable service.
- b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b18)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.
- c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:
1. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or
2. The service retirement allowance as computed under G.S. 135-5(b18)(2)a. reduced by five percent (5%) times

- 1 the difference between 30 years and his creditable
2 service at retirement; or
- 3 3. If the member's creditable service commenced prior to
4 July 1, 1994, the service retirement allowance equal to
5 the actuarial equivalent of the allowance payable at the
6 age of 60 years as computed in G.S. 135-5(b18)b.
- 7 d. Notwithstanding the foregoing provisions, any member whose
8 creditable service commenced prior to July 1, 1963, shall not
9 receive less than the benefit provided by G.S. 135-5(b)."

10 **SECTION 2.** G.S. 135-5 is amended by adding a new subsection to read:

11 "(b19) Service Retirement Allowance of Members Retiring on or After July 1, 2002.
12 – Upon retirement from service in accordance with subsection (a) or (a1) above, on or
13 after July 1, 2002, a member shall receive the following service retirement allowance:

- 14 (1) A member who is a law enforcement officer or an eligible former law
15 enforcement officer shall receive a service retirement allowance
16 computed as follows:
- 17 a. If the member's service retirement date occurs on or after his
18 55th birthday, and completion of five years of creditable service
19 as a law enforcement officer, or after the completion of 30 years
20 of creditable service, the allowance shall be equal to one and
21 eighty-seven hundredths percent (1.87%) of his average final
22 compensation, multiplied by the number of years of his
23 creditable service.
- 24 b. If the member's service retirement date occurs on or after his
25 50th birthday and before his 55th birthday with 15 or more
26 years of creditable service as a law enforcement officer and
27 prior to the completion of 30 years of creditable service, his
28 retirement allowance shall be equal to the greater of:
- 29 1. The service retirement allowance payable under G.S.
30 135-5(b19)(1)a. reduced by one-third of one percent (1/3
31 of 1%) thereof for each month by which his retirement
32 date precedes the first day of the month coincident with
33 or next following the month the member would have
34 attained his 55th birthday; or
- 35 2. The service retirement allowance as computed under
36 G.S. 135-5(b19)(1)a. reduced by five percent (5%) times
37 the difference between 30 years and his creditable
38 service at retirement.
- 39 (2) A member who is not a law enforcement officer or an eligible former
40 law enforcement officer shall receive a service retirement allowance
41 computed as follows:
- 42 a. If the member's service retirement date occurs on or after his
43 65th birthday upon the completion of five years of membership
44 service or after the completion of 30 years of creditable service

or on or after his 60th birthday upon the completion of 25 years of creditable service, the allowance shall be equal to one and eighty-seven hundredths percent (1.87%) of his average final compensation, multiplied by the number of years of creditable service.

b. If the member's service retirement date occurs after his 60th birthday and before his 65th birthday and prior to his completion of 25 years or more of creditable service, his retirement allowance shall be computed as in G.S. 135-5(b19)(2)a. but shall be reduced by one-quarter of one percent (1/4 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following his 65th birthday.

c. If the member's early service retirement date occurs on or after his 50th birthday and before his 60th birthday and after completion of 20 years of creditable service but prior to the completion of 30 years of creditable service, his early service retirement allowance shall be equal to the greater of:

1. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. but reduced by the sum of five-twelfths of one percent (5/12 of 1%) thereof for each month by which his retirement date precedes the first day of the month coincident with or next following the month the member would have attained his 60th birthday, plus one-quarter of one percent (1/4 of 1%) thereof for each month by which his 60th birthday precedes the first day of the month coincident with or next following his 65th birthday; or

2. The service retirement allowance as computed under G.S. 135-5(b19)(2)a. reduced by five percent (5%) times the difference between 30 years and his creditable service at retirement; or

3. If the member's creditable service commenced prior to July 1, 1994, the service retirement allowance equal to the actuarial equivalent of the allowance payable at the age of 60 years as computed in G.S. 135-5(b19)b.

d. Notwithstanding the foregoing provisions, any member whose creditable service commenced prior to July 1, 1963, shall not receive less than the benefit provided by G.S. 135-5(b)."

SECTION 3. G.S. 135-5 is amended by adding two new subsections to read:

"(jjj) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2002. – From and after July 1, 2002, the retirement allowance to or on account of beneficiaries on the retirement rolls as of June 1, 2002, shall be increased by three and three-tenths percent (3.3%) of the allowance payable on June 1, 2002. This allowance shall be

1 calculated on the allowance payable and in effect on June 30, 2002, so as not to be
2 compounded on any other increase granted by act of the 2002 Regular Session of the
3 2001 General assembly.

4 (kkk) From and after July 1, 2002, the retirement allowance to or on account of
5 beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased
6 by one and twenty-five hundredths percent (1.25%) of the allowance payable on June 1,
7 2002, in accordance with G.S. 135-5(o). Furthermore, from and after July 1, 2002, the
8 retirement allowance to or on account of beneficiaries whose retirement commenced
9 after July 1, 2001, but before June 30, 2002, shall be increased by a prorated amount of
10 one and twenty-five hundredths percent (1.25%) of the allowance payable as determined
11 by the Board of Trustees based upon the number of months that a retirement allowance
12 was paid between July 1, 2001, and June 30, 2002."

13 **SECTION 4.** G.S. 135-5(m) reads as rewritten:

14 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
15 principal beneficiary designated to receive a return of accumulated contributions shall
16 have the right to elect to receive in lieu thereof the reduced retirement allowance
17 provided by Option 2 of subsection (g) above computed by assuming that the member
18 had retired on the first day of the month following the date of his death, provided that
19 the following conditions apply:

- 20 (1) a. The member had attained such age and/or creditable service to
21 be eligible to commence retirement with an early or service
22 retirement allowance, or
23 b. The member had obtained 20 years of creditable service in
24 which case the retirement allowance shall be computed in
25 accordance with ~~G.S. 135-5(b18)(1)b. or G.S. 135-5(b18)(2)c.,~~
26 G.S. 135-5(b19)(1)b. or G.S. 135-5(b19)(2)c., notwithstanding
27 the requirement of obtaining age 50.
28 (2) The member had designated as the principal beneficiary to receive a
29 return of his accumulated contributions one and only one person who
30 was living at the time of his death.
31 (3) The member had not instructed the Board of Trustees in writing that he
32 did not wish the provisions of this subsection to apply.

33 For the purpose of this benefit, a member is considered to be in service at the date of
34 his death if his death occurs within 180 days from the last day of his actual service. The
35 last day of actual service shall be determined as provided in subsection (l) of this
36 section. Upon the death of a member in service, the surviving spouse may make all
37 purchases for creditable service as provided for under this Chapter for which the
38 member had made application in writing prior to the date of death, provided that the
39 date of death occurred prior to or within 60 days after notification of the cost to make
40 the purchase. The term "in service" as used in this subsection includes a member in
41 receipt of a benefit under the Disability Income Plan as provided in Article 6 of this
42 Chapter."

43 **SECTION 5.** G.S. 135-65 is amended by adding a new subsection to read:

1 "(w) From and after July 1, 2002, the retirement allowance to or on account of
2 beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased
3 by one and twenty-five hundredths percent (1.25%) of the allowance payable on June 1,
4 2002. Furthermore, from and after July 1, 2002, the retirement allowance to or on
5 account of beneficiaries whose retirement commenced after July 1, 2001, but before
6 June 30, 2002, shall be increased by a prorated amount of one and twenty-five
7 hundredths percent (1.25%) of the allowance payable as determined by the Board of
8 Trustees based upon the number of months that a retirement allowance was paid
9 between July 1, 2001, and June 30, 2002."

10 **SECTION 6.** G.S. 120-4.22A is amended by adding a new subsection to
11 read:

12 "(q) In accordance with subsection (a) of this section, from and after July 1, 2002,
13 the retirement allowance to or on account of beneficiaries whose retirement commenced
14 on or before January 1, 2002, shall be increased by one and twenty-five hundredths
15 percent (1.25%) of the allowance payable on June 1, 2002. Furthermore, from and after
16 July 1, 2002, the retirement allowance to or on account of beneficiaries whose
17 retirement commenced after January 1, 2002, but before June 30, 2002, shall be
18 increased by a prorated amount of one and twenty-five hundredths percent (1.25%) of
19 the allowance payable as determined by the Board of Trustees based upon the number
20 of months that a retirement allowance was paid between January 1, 2002, and June 30,
21 2002."

22 **SECTION 7.** G.S. 128-27(b19) reads as rewritten:

23 "(b19) Service Retirement Allowance of Member Retiring on or After July 1, 2001-
24 2001, But Before July 1, 2002. – Upon retirement from service in accordance with
25 subsection (a) or (a1) above, on or after July 1, 2001, but before July 1, 2002, a member
26 shall receive the following service retirement allowance:

27 (1) A member who is a law enforcement officer or an eligible former law
28 enforcement officer shall receive a service retirement allowance
29 computed as follows:

30 a. If the member's service retirement date occurs on or after his
31 55th birthday and completion of five years of creditable service
32 as a law enforcement officer, or after the completion of 30 years
33 of creditable service, the allowance shall be equal to one and
34 eighty-one hundredths percent (1.81%) of his average final
35 compensation, multiplied by the number of years of his
36 creditable service.

37 b. If the member's service retirement date occurs on or after his
38 50th birthday and before his 55th birthday with 15 or more
39 years of creditable service as a law enforcement officer and
40 prior to the completion of 30 years of creditable service, his
41 retirement allowance shall be equal to the greater of:

42 1. The service retirement allowance payable under G.S.
43 128-27(b19)(1)a. reduced by one-third of one percent
44 (1/3 of 1%) thereof for each month by which his

- 1 retirement date precedes the first day of the month
2 coincident with or next following the month the member
3 would have attained his 55th birthday;
4 2. The service retirement allowance as computed under
5 G.S. 128-27(b19)(1)a. reduced by five percent (5%)
6 times the difference between 30 years and his creditable
7 service at retirement.
- 8 (2) A member who is not a law enforcement officer or an eligible former
9 law enforcement officer shall receive a service retirement allowance
10 computed as follows:
11 a. If the member's service retirement date occurs on or after his
12 65th birthday upon the completion of five years of creditable
13 service or after the completion of 30 years of creditable service
14 or on or after his 60th birthday upon the completion of 25 years
15 of creditable service, the allowance shall be equal to one and
16 eighty-one hundredths percent (1.81%) of average final
17 compensation, multiplied by the number of years of creditable
18 service.
19 b. If the member's service retirement date occurs after his 60th
20 birthday and before his 65th birthday and prior to his
21 completion of 25 years or more of creditable service, his
22 retirement allowance shall be computed as in G.S.
23 128-27(b19)(2)a. but shall be reduced by one-quarter of one
24 percent ($\frac{1}{4}$ of 1%) thereof for each month by which his
25 retirement date precedes the first day of the month coincident
26 with or next following his 65th birthday.
27 c. If the member's early service retirement date occurs on or after
28 his 50th birthday and before his 60th birthday and after
29 completion of 20 years of creditable service but prior to the
30 completion of 30 years of creditable service, his early service
31 retirement allowance shall be equal to the greater of:
32 1. The service retirement allowance as computed under
33 G.S. 128-27(b19)(2)a. but reduced by the sum of
34 five-twelfths of one percent ($\frac{5}{12}$ of 1%) thereof for
35 each month by which his retirement date precedes the
36 first day of the month coincident with or next following
37 the month the member would have attained his 60th
38 birthday, plus one-quarter of one percent ($\frac{1}{4}$ of 1%)
39 thereof for each month by which his 60th birthday
40 precedes the first day of the month coincident with or
41 next following his 65th birthday; or
42 2. The service retirement allowance as computed under
43 G.S. 128-27(b19)(2)a. reduced by five percent (5%)

- 1 times the difference between 30 years and his creditable
2 service at retirement; or
3 3. If the member's creditable service commenced prior to
4 July 1, 1995, the service retirement allowance equal to
5 the actuarial equivalent of the allowance payable at the
6 age of 60 years as computed in G.S. 128-27(b19)(2)b.
7 d. Notwithstanding the foregoing provisions, any member whose
8 creditable service commenced prior to July 1, 1965, shall not
9 receive less than the benefit provided by G.S. 128-27(b)."

10 **SECTION 8.** G.S. 128-27 is amended by adding a new subsection to read:

11 "(b20) Service Retirement Allowance of Member Retiring on or After July 1, 2002.
12 - Upon retirement from service in accordance with subsection (a) or (a1) above, on or
13 after July 1, 2002, a member shall receive the following service retirement allowance:

- 14 (1) A member who is a law enforcement officer or an eligible former law
15 enforcement officer shall receive a service retirement allowance
16 computed as follows:
17 a. If the member's service retirement date occurs on or after his
18 55th birthday and completion of five years of creditable service
19 as a law enforcement officer, or after the completion of 30 years
20 of creditable service, the allowance shall be equal to one and
21 eighty-seven hundredths percent (1.87%) of his average final
22 compensation, multiplied by the number of years of his
23 creditable service.
24 b. If the member's service retirement date occurs on or after his
25 50th birthday and before his 55th birthday with 15 or more
26 years of creditable service as a law enforcement officer and
27 prior to the completion of 30 years of creditable service, his
28 retirement allowance shall be equal to the greater of:
29 1. The service retirement allowance payable under G.S.
30 128-27(b20)(1)a. reduced by one-third of one percent
31 (1/3 of 1%) thereof for each month by which his
32 retirement date precedes the first day of the month
33 coincident with or next following the month the member
34 would have attained his 55th birthday;
35 2. The service retirement allowance as computed under
36 G.S. 128-27(b20)(1)a. reduced by five percent (5%)
37 times the difference between 30 years and his creditable
38 service at retirement.
39 (2) A member who is not a law enforcement officer or an eligible former
40 law enforcement officer shall receive a service retirement allowance
41 computed as follows:
42 a. If the member's service retirement date occurs on or after his
43 65th birthday upon the completion of five years of creditable
44 service or after the completion of 30 years of creditable service

1 or on or after his 60th birthday upon the completion of 25 years
2 of creditable service, the allowance shall be equal to one and
3 eighty-seven hundredths percent (1.87%) of average final
4 compensation, multiplied by the number of years of creditable
5 service.

6 b. If the member's service retirement date occurs after his 60th
7 birthday and before his 65th birthday and prior to his
8 completion of 25 years or more of creditable service, his
9 retirement allowance shall be computed as in G.S. 128-
10 27(b20)(2)a. but shall be reduced by one-quarter of one percent
11 (1/4 of 1%) thereof for each month by which his retirement date
12 precedes the first day of the month coincident with or next
13 following his 65th birthday.

14 c. If the member's early service retirement date occurs on or after
15 his 50th birthday and before his 60th birthday and after
16 completion of 20 years of creditable service but prior to the
17 completion of 30 years of creditable service, his early service
18 retirement allowance shall be equal to the greater of:

19 1. The service retirement allowance as computed under
20 G.S. 128-27(b20)(2)a. but reduced by the sum of five-
21 twelfths of one percent (5/12 of 1%) thereof for each
22 month by which his retirement date precedes the first day
23 of the month coincident with or next following the
24 month the member would have attained his 60th
25 birthday, plus one-quarter of one percent (1/4 of 1%)
26 thereof for each month by which his 60th birthday
27 precedes the first day of the month coincident with or
28 next following his 65th birthday; or

29 2. The service retirement allowance as computed under
30 G.S. 128-27(b20)(2)a. reduced by five percent (5%)
31 times the difference between 30 years and his creditable
32 service at retirement; or

33 3. If the member's creditable service commenced prior to
34 July 1, 1995, the service retirement allowance equal to
35 the actuarial equivalent of the allowance payable at the
36 age of 60 years as computed in G.S. 128-27(b20)(2)b.

37 d. Notwithstanding the foregoing provisions, any member whose
38 creditable service commenced prior to July 1, 1965, shall not
39 receive less than the benefit provided by G.S. 128-27(b)."

40 SECTION 9. G.S. 128-27 is amended by adding two new subsections to

41 read:

42 "(bbb) Increase in Allowance as to Persons on Retirement Rolls as of June 1, 2002. -
43 From and after July 1, 2002, the retirement allowance to or on account of beneficiaries
44 on the retirement rolls as of June 1, 2002, shall be increased by three and three-tenths

1 percent (3.3%) of the allowance payable on June 1, 2002. This allowance shall be
2 calculated on the allowance payable and in effect on June 30, 2002, so as not to be
3 compounded on any other increase payable under subsection (k) of this section or
4 otherwise granted by act of the 2002 Regular Session of the 2001 General Assembly."

5 "(ccc) From and after July 1, 2002, the retirement allowance to or on account of
6 beneficiaries whose retirement commenced on or before July 1, 2001, shall be increased
7 by one and twenty-five hundredths percent (1.25%) of the allowance payable on June 1,
8 2002, in accordance with subsection (k) of this section. Furthermore, from and after July
9 1, 2002, the retirement allowance to or on account of beneficiaries whose retirement
10 commenced after July 1, 2001, but before June 30, 2002, shall be increased by a
11 prorated amount of one and twenty-five hundredths percent (1.25%) of the allowance
12 payable as determined by the Board of Trustees based upon the number of months that a
13 retirement allowance was paid between July 1, 2001, and June 30, 2002."

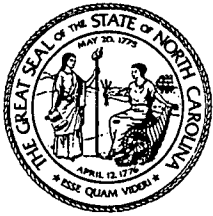
14 **SECTION 10.** G.S. 128-27(m) reads as rewritten:

15 "(m) Survivor's Alternate Benefit. – Upon the death of a member in service, the
16 principal beneficiary designated to receive a return of accumulated contributions shall
17 have the right to elect to receive in lieu thereof the reduced retirement allowance
18 provided by Option two of subsection (g) above computed by assuming that the member
19 had retired on the first day of the month following the date of his death, provided that all
20 three of the following conditions apply:

- 21 (1) a. The member had attained such age and/or creditable service to
22 be eligible to commence retirement with an early or service
23 retirement allowance, or
24 b. The member had obtained 20 years of creditable service in
25 which case the retirement allowance shall be computed in
26 accordance with ~~G.S. 128-27(b19)(1)b. or G.S. 128-~~
27 ~~27(b19)(2)c.,~~ G.S. 128-27(b20)(1)b. or G.S. 128-27(b20)(2)c.,
28 notwithstanding the requirement of obtaining age 50.
29 (2) The member had designated as the principal beneficiary to receive a
30 return of his accumulated contributions one and only one person who
31 is living at the time of his death.
32 (3) The member had not instructed the Board of Trustees in writing that he
33 did not wish the provisions of this subsection apply.

34 For the purpose of this benefit, a member is considered to be in service at the date of
35 his death if his death occurs within 180 days from the last day of his actual service. The
36 last day of actual service shall be determined as provided in subsection (l) of this
37 section. Upon the death of a member in service, the surviving spouse may make all
38 purchases for creditable service as provided for under this Chapter for which the
39 member had made application in writing prior to the date of death, provided that the
40 date of death occurred prior to or within 60 days after notification of the cost to make
41 the purchase."

42 **SECTION 11.** This act becomes effective July 1, 2002.



HOUSE BILL 1602: Increase Retirement Benefits

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: July 10, 2002
Version: 1st Edition

Introduced by: Representative Cox
Summary by: Theresa Matula
Committee Staff

SUMMARY: *House Bill 1602 increases retirement benefits for members of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, and the Local Governmental Employees' Retirement System.*

BILL ANALYSIS:

SECTIONS 1, 2, 3, AND 4: TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM (TSERS)

Section 1 amends G.S. 135-5(b18) to specify that the benefits outlined under G.S. 135-5(b18) apply to the service retirement allowance of TSERS members retiring after July 1, 2000 and before July 1, 2002.

Section 2 adds G.S. 135-5(b19) to outline the service retirement allowance of TSERS members retiring on or after July 1, 2002 and increases the accrual rate for active members to 1.87% (previously 1.81%).

Section 3 increases the retirement allowance of TSERS beneficiaries on the retirement rolls as of June 1, 2002 by 3.3%. Beneficiaries whose retirement commenced on or before July 1, 2001 shall receive a retirement allowance increase of 1.25%. The allowance of beneficiaries whose retirement commenced after July 1, 2001, but before June 30, 2002, shall be increased by a prorated amount of 1.25%.

Section 4 makes conforming changes to G.S. 135-5(m) regarding the Survivor's Alternate Benefit.

SECTION 5: CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

Section 5 increases the retirement allowance by 1.25% for beneficiaries of the Consolidated Judicial Retirement System whose retirement commenced on or before July 1, 2001. The allowance of beneficiaries whose retirement commenced after July 1, 2001, but before June 30, 2002, shall be increased by a prorated amount of 1.25%.

SECTION 6: LEGISLATIVE RETIREMENT SYSTEM

Section 6 increases the retirement allowance by 1.25% for beneficiaries of the Legislative Retirement System whose retirement commenced on or before January 1, 2002. The allowance of beneficiaries whose retirement commenced after January 1, 2002, but before June 30, 2002 shall be increased by a prorated amount of 1.25%.

HOUSE BILL 1602

Page 2

SECTIONS 7, 8, 9 AND 10: LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (LGERS)

Section 7 amends G.S. 128-27(b19) to specify that the benefits outlined under G.S. 128-27(b19) apply to the service retirement allowance of LGERS members retiring after July 1, 2001 and before July 1, 2002.

Section 8 adds G.S. 128-27(b20) to specify the service retirement allowance of LGERS members retiring on or after July 1, 2002 and increases the accrual rate for active members to 1.87%.

Section 9 increases the retirement allowance of beneficiaries on the Local Governmental Employees' Retirement System rolls as of June 1, 2002 by 3.3%. Beneficiaries whose retirement commenced on or before July 1, 2001 shall receive a retirement allowance increase of 1.25%. The allowance of beneficiaries whose retirement commenced after July 1, 2001, but before June 30, 2002, shall be increased by a prorated amount of 1.25%.

Section 10 makes conforming changes to G.S. 128-27(m) regarding the Survivor's Alternate Benefit.

SECTION 11: EFFECTIVE DATE

Section 11 states that this act becomes effective July 1, 2002.



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July 9, 2002

MEMORANDUM

TO: Representatives Cox, Barefoot & Buchanan

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1602

Re: Increase retirement benefits

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1602

SHORT TITLE: Increase Retirement Benefits

SPONSOR(S): Representatives Cox, Barefoot and Buchanan

SYSTEM OR PROGRAM AFFECTED: Teachers' & 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: **Teachers' and State Employees' Retirement System** - Increases the accrual rate for active members from 1.81% to 1.87% for each year of service, grants an adjusting increase of 3.3% to retirees as a result of the accrual rate change and provides a post-retirement increase of 1.25% in the benefits of retirees. **Consolidated Judicial Retirement System** - Provides a post-retirement increase of 1.25 % in the benefits of retirees. **Legislative Retirement System** - Provides a post-retirement increase of 1.25% in the benefits of retirees. **Local Governmental Employees' Retirement System** - Increases the accrual rate for active members from 1.78% to 1.87% for each year of service, grants an adjusting increase of 3.3% to retirees as a result of the accrual rate change and provides a post-retirement increase of 1.25% in the benefits of retirees.

EFFECTIVE DATE: July 1, 2002

ESTIMATED IMPACT ON STATE: Teachers' and State Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be 2.81% of the payroll of all members of the Teachers' and State Employees' Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$208.0M	\$221.4M	\$235.7M	\$250.8M	\$266.9M
Highway Fund	\$ 10.4M	\$ 11.0M	\$ 11.7M	\$ 12.5M	\$ 13.3M
Receipt Funds	<u>\$ 69.7M</u>	<u>\$ 74.2M</u>	<u>\$ 79.0M</u>	<u>\$ 84.0M</u>	<u>\$ 89.4M</u>
TOTAL COST	\$288.1M	\$306.6M	\$326.4M	\$347.3M	\$369.7M

General Assembly Actuary: Hartman & Associates estimates the cost to be 2.79% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$206.6M	\$219.9M	\$234.0M	\$249.0M	\$265.0M
Highway Fund	\$ 10.3M	\$ 10.9M	\$ 11.6M	\$ 12.4M	\$ 13.2M
Receipt Funds	<u>\$ 69.2M</u>	<u>\$ 73.7M</u>	<u>\$ 78.4M</u>	<u>\$ 83.4M</u>	<u>\$ 88.8M</u>
TOTAL COST	\$286.1M	\$304.5M	\$324.0M	\$344.9M	\$367.0M

Consolidated Judicial Retirement System

Retirement System Actuary: Buck Consultants estimates the cost to be .54% of payroll.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M

General Assembly Actuary: Hartman & Associates estimates the cost to be .59% of payroll.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M	\$ 0.3M

Legislative Retirement System

Retirement System Actuary: Charles Dunn estimates the cost to be .61% of payroll.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$21,960	\$21,960	\$21,960	\$21,960	\$21,960

General Assembly Actuary: Hartman & Associates estimates the cost to be .63% of payroll.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$22,680	\$22,680	\$22,680	\$22,680	\$22,680

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Local Governmental Employees' Retirement System

Retirement System Actuary: Buck Consultants estimates the cost will be 1.34% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Local Funds	\$51.1M	\$54.4M	\$58.0M	\$61.8M	\$65.9M

General Assembly Actuary: Hartman & Associates estimates the cost will be 1.30% of the payroll of all members of the Local Governmental Employees' Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Local Funds	\$49.5M	\$52.8M	\$56.3M	\$60.0M	\$64.0M

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, 2000, actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

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, 2000, actuarial valuation of the fund. The data included 116,240

active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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.

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, 2000, actuarial valuation of the fund. The data included 470 active members with an annual payroll of \$43.5 million and 368 retired members in receipt of annual pensions totaling \$14.5 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

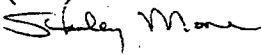
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2000, actuarial valuation of the fund. The data included 172 active members with an annual payroll of \$3.7 million and 189 retired members in receipt of annual pensions totaling \$1,055,125. 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.

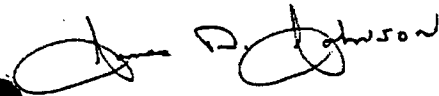
SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC
Legislative System Actuary - Charles W. Dunn

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

FISCAL RESEARCH DIVISION: (919) 733-4910.

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson 

DATE:

July 9, 2002

BUCK CONSULTANTS[®]

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

House Bill 1602

Dear Mr. Williamson:

We have received your letter of June 11 regarding House Bill 1602 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

This proposed legislation appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries of the Teachers' and State Employees' Retirement System equal to 1.25% for those who commenced retirement on and before July 1, 2001, and a prorated portion of the 1.25% post-retirement increase for those who commenced retirement after July 1, 2001 and before June 30, 2002, with all increases payable effective July 1, 2002. The cost of this proposed change is 0.35% of payroll.

This proposed legislation also appears to grant an increase in the defined benefit formula accrual rate, in the Teachers' and State Employees' Retirement System, from 1.81% to 1.87%, effective as of July 1, 2002 with a corresponding adjustment in the monthly allowances of existing retirees equal to 3.3% of the retirement allowances in effect on June 1, 2002, payable effective July 1, 2002. The cost of this proposed change is 2.46% of payroll.

CONSOLIDATED JUDICIAL RETIREMENT SYSTEM

This proposed legislation also appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries of the Consolidated Judicial Retirement System, equal to 1.25% for those who commenced retirement on and before July 1, 2001 and a prorated portion of the 1.25% post-retirement increase for those who commenced retirement after July 1, 2001 and before June 30, 2002, with all increases payable effective July 1, 2002. The cost of this proposed change is 0.54% of payroll.

Mr. Michael L. Williamson
June 19, 2002
Page 2

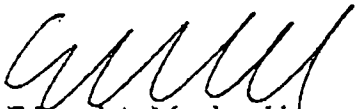
LOCAL GOVERNMENTAL RETIREMENT SYSTEM

This proposed legislation also appears to grant a post-retirement increase in the allowances of retirees and other beneficiaries of the Local Governmental Employees' Retirement System, equal to 1.25% for those who commenced retirement on and before July 1, 2001 and a prorated portion of the 1.25% post-retirement increase for those who commenced retirement after July 1, 2001 and before June 30, 2002, with all increases payable effective July 1, 2002. The cost of this proposed change is 0.14% of payroll.

This proposed legislation also appears to grant an increase in the defined benefit formula accrual rate, in the Local Governmental Employees' Retirement System, from 1.81% to 1.87%, effective as of July 1, 2002 with a corresponding adjustment in the monthly allowances of existing retirees equal to 3.3% of the retirement allowances in effect on June 1, 2002, payable effective July 1, 2002. The cost of this proposed change is 1.20% of payroll.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

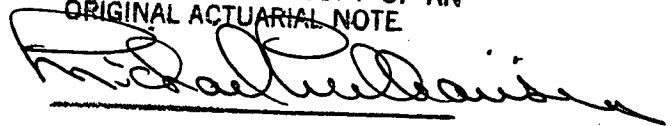


Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 18, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1602: An Act to Enhance Benefits Payable from
the TSERS, CJRS, LRS, and LGERS Systems

Dear Mr. Moore:

This bill would amend the North Carolina General Statutes to enhance retirement benefits payable from the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS). The benefit increases provided by this bill are as follows:

1. In the TSERS and the LGERS, the bill would
 - increase the annual accrual rate from 1.81% to 1.87% for members retiring on or after July 1, 2002
 - increase the retirement allowance by 3.3% for all beneficiaries on the retirement rolls as of June 1, 2002
 - increase the retirement allowance an additional 1.25% for all beneficiaries who retired on or before July 1, 2001, with a prorated increase for retirements between July 1, 2001 and June 30, 2002.
2. In the CJRS, the bill would increase the retirement allowances 1.25% for all beneficiaries who retired on or before July 1, 2001, with a prorated increase for retirements between July 1, 2001 and June 30, 2002.

Mr. Stanley Moore
June 18, 2002

Page 2

3. In the LRS, the bill would provide a 1.25% increase in the retirement allowances payable to beneficiaries whose retirement began on or before January 1, 2002, with a prorated increase for retirements after January 1, 2002 and before June 30, 2002.

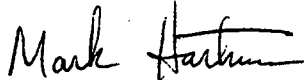
All provisions of this act are effective July 1, 2002. The estimated cost of this act for the fiscal year beginning July 1, 2002, expressed as a percent of payroll, is shown below. The cost is shown separately for the retiree COLA provisions and the formula accrual rate adjustments (including adjustments to current beneficiaries).

<u>System</u>	<u>Retiree COLA</u>	<u>Increase in Accrual Rate</u>	<u>Amort. Period for Unfunded Liability</u>
TSERS	0.32%	2.47%	9 years
CJRS	0.59	n/a	9 years
LRS	0.63	n/a	5 years
LGERS	0.12	1.18	n/a

These estimates are based on information contained in the most recent actuarial valuations prepared as of December 31, 2000.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 1588*

Short Title: Increase Fire and Rescue Pension.

(Public)

Sponsors: Representatives Cox; M. Crawford, Dedmon, Hilton, Morris, Setzer, Shubert, Tucker, and Warwick.

Referred to: Pensions and Retirement.

June 6, 2002

A BILL TO BE ENTITLED

AN ACT TO INCREASE THE MONTHLY PENSION FOR MEMBERS OF THE FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-86-55 reads as rewritten:

"§ 58-86-55. Monthly pensions upon retirement.

Any member who has served 20 years as an "eligible fireman" or "eligible rescue squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S. 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly pension from this fund. The monthly pension shall be in the amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-six dollars (\$156.00) per month. Any retired fireman receiving a pension shall, effective ~~July 1, 2000~~, July 1, 2002, receive a pension of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-six dollars (\$156.00) per month.

Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a pension hereunder until the member's official duties as a fireman or rescue squad worker for which the member is paid compensation shall have been terminated and the member shall have retired as such according to standards or rules fixed by the board of trustees.

A member who is totally and permanently disabled while in the discharge of the member's official duties as a result of bodily injuries sustained or as a result of extreme exercise or extreme activity experienced in the course and scope of those official duties and who leaves the fire or rescue squad service because of this disability shall be entitled to be paid from the fund a monthly benefit in an amount of ~~one hundred fifty-one dollars (\$151.00)~~ one hundred fifty-six dollars (\$156.00) per month beginning the first month after the member's fifty-fifth birthday. All applications for disability are

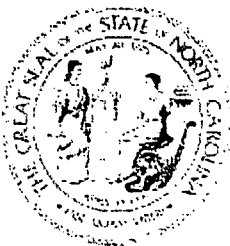
1 subject to the approval of the board who may appoint physicians to examine and
2 evaluate the disabled member prior to approval of the application, and annually
3 thereafter. Any disabled member shall not be required to make the monthly payment of
4 ten dollars (\$10.00) as required by G.S. 58-86-35 and G.S. 58-86-40.

5 A member who is totally and permanently disabled for any cause, other than line of
6 duty, who leaves the fire or rescue squad service because of this disability and who has
7 at least 10 years of service with the pension fund, may be permitted to continue making
8 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
9 contributions for a total of 240 months. The member shall upon attaining the age of 55
10 years be entitled to receive a pension as provided by this section. All applications for
11 disability are subject to the approval of the board who may appoint physicians to
12 examine and evaluate the disabled member prior to approval of the application and
13 annually thereafter.

14 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
15 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
16 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
17 of the General Statutes, and because of such annexation is unable to perform as a
18 fireman of any status, and if the member has at least 10 years of service with the
19 pension fund, may be permitted to continue making a monthly contribution of ten
20 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
21 months. The member upon attaining the age of 55 years and completion of such
22 contributions shall be entitled to receive a pension as provided by this section. Any
23 application to make monthly contributions under this section shall be subject to a
24 finding of eligibility by the Board of Trustees upon application of the member.

25 The pensions provided shall be in addition to all other pensions or benefits under any
26 other statutes of the State of North Carolina or the United States, notwithstanding any
27 exclusionary provisions of other pensions or retirement systems provided by law."

28 **SECTION 2.** This act becomes effective July 1, 2002.



HOUSE BILL 1588: Increase Fire and Rescue Pension

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: July 10, 2002
Version: 1st Edition

Introduced by: Representative Cox
Summary by: Theresa Matula
Committee Staff

SUMMARY:

House Bill 1588 increases the benefit paid to retirees of the North Carolina Firemen's and Rescue Squad Workers' Pension Fund from \$151.00 to \$156.00 per month.

BILL ANALYSIS:

Chapter 58, Article 86 of the General Statutes provides for the North Carolina Fireman's and Rescue Squad Workers' Pension Fund. Under the provisions of this Fund, an eligible fireman or rescue squad worker must pay \$10.00 per month for a period not exceeding 20 years. Members are eligible for monthly pensions when they have served 20 years and are at least 55 years of age. House Bill 1588 amends G.S. 58-86-55 to increase the pension paid to an eligible fireman or eligible rescue squad worker from \$151.00 to \$156.00 per month. The benefit would be increased for those already retired and those who retire in the future.

House Bill 1588 makes an identical increase, from \$151.00 to \$156.00 per month, in the benefit paid to members who become totally and permanently disabled while in the discharge of official duties.

This act would become effective July 1, 2002. (Once enacted the \$5.00 increase will be paid retroactive to July 1, 2002.)

HISTORY:

Recent Increases in the Fire and Rescue Pension

<i>Session/Law Reference</i>	<i>Effective Date</i>	<i>Monthly Pension</i>	<i>Increase Over Previous Year</i>
S.L. 1997-443 (S352) Sec. 33.25	July 1, 1997	\$141	\$6/ month
S.L. 1998-212 (S1366) Sec 28.21	July 1, 1998	\$146	\$5/ month
S.L. 2000-67 (H 1840) Sec. 26.18	July 1, 2000	\$151	\$5/ month
<i>House Bill 1588</i>	July 1, 2002	<i>\$156 proposed</i>	<i>\$5/ month proposed</i>



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

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Administrative Division
Rohrer Legislative Building
16 W. Jones Street
Raleigh, NC 27603-5925
(919) 733-7500

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Terrence D. Sullivan, Director
Research Division
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

June 25, 2002

MEMORANDUM

TO: Representative Cox

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House 1588

Re: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$151 to \$156

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1588

SHORT TITLE: Firemen and Rescue Workers Pension Fund

SPONSOR(S): Representative Cox

SYSTEM OR PROGRAM AFFECTED: Firemen's and Rescue Squad Worker's Pension Fund

FUNDS AFFECTED: General Fund

BILL SUMMARY: Increases the monthly benefit to retirees and future retirees of the Firemen's and Rescue Squad Workers' Pension Fund from \$151 to \$156.

EFFECTIVE DATE: July 1, 2002

ESTIMATED IMPACT ON STATE:

System Actuary: Buck Consultants

	<u>FY</u> 2002-03	<u>FY</u> 2003-04	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07
Benefit Increase	\$1,371,590	\$1,371,590	\$1,371,590	\$1,371,590	\$1,371,590

General Assembly Actuary: Hartman & Associates

	<u>FY</u> 2002-03	<u>FY</u> 2003-04	<u>FY</u> 2004-05	<u>FY</u> 2005-06	<u>FY</u> 2006-07
Benefit Increase	\$1,442,065	\$1,442,065	\$1,442,065	\$1,442,065	\$1,442,065

There are funds within the Pension Fund to cover the cost of this increase.

ASSUMPTIONS AND METHODOLOGY: 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, 2001 actuarial valuation of the fund. The data included 30,514 active members and 8,093 retired members in receipt of annual pensions totaling \$14.7 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 that is available upon request from Stanley Moore.

SOURCES OF DATA:

System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

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

Stanley Moore

APPROVED BY: James D. Johnson

James D. Johnson

DATE: June 24, 2002

BUCK CONSULTANTS™

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

House Bill 1588

Dear Michael:

We have received your letter of June 11 regarding House Bill 1588 which affects the Firemen's and Rescue Squad Workers' Pension Fund

This legislation appears to provide effective on and after July 1, 2002, for a five dollar (\$5.00) increase in the monthly pensions payable to current and future pensioners from this Pension Fund. The current monthly pension payment is \$151.00 to all pensioners. The proposed monthly pension payment would be \$156.00 to all pensioners.

Our cost estimate for this legislation is based on the Fund's valuation as of June 30, 2001, including a funding basis of nine years for liquidation of unfunded accrued liabilities. The funding mechanism for this legislation would be to utilize the Pension Fund's unencumbered actuarial gains as of June 30, 2001.

Under the assumption that \$12,104,780 is the budgeted annual contribution amount for the 2002-03 fiscal year, and assuming no repayment of the \$1,025,780 net pension obligation, there is \$6,620,191 available from actuarial gains as of June 30, 2001, to offset the required contributions for benefit improvements. The annual cost of this proposed legislation is \$1,371,590. Therefore, this legislation would require no additional appropriations for the 2002-03 fiscal year. The following table shows the required annual contribution for this legislation and the offsetting use of gains.

Mr. Michael Williamson
June 19, 2002
Page 2

**ADDITIONAL ANNUAL CONTRIBUTIONS PAYABLE BY THE STATE
FOR AN INCREASE IN PENSION FROM \$151 TO \$156
FOR CURRENT AND FUTURE RETIRED MEMBERS**

Additional contribution for \$5.00 increase:

Normal	\$ 196,815
Accrued liability	<u>1,174,775</u>
Total	\$ 1,371,590

Available annual contribution due to actuarial gains

From 6-30-2001 valuation	\$ 6,620,191
--------------------------	--------------

Remaining appropriation available

\$ 5,248,601

As a technical observation, lines 11-13 on page 1 of the legislation appear to grant the pension only to retired firemen with no reference to the pension payable to retired rescue squad workers. However, our calculation of the cost assumes that the pension would also be payable to retired rescue squad workers. In addition, there are no funding provisions included in this Bill.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE.



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

May 29, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Special Provision: An Act to Increase the Monthly Pension
for Members of the Firemen's and Rescue Squad Workers' Pension
Fund

Dear Mr. Moore:

This provision would rewrite G.S. 58-86-55 to increase the monthly retirement benefit in the Firemen's and Rescue Squad Workers' Pension Fund from \$151 per month to \$156 per month for current and future retirees. This provision would become effective July 1, 2002.

The increase in the retirement benefit amount will increase both the normal cost rate and the unfunded accrued liability. Based on the current actuarial valuation, the amortization period for the unfunded accrued liability is nine years. Using the nine year amortization period, the estimated cost of this Act for the fiscal year beginning July 1, 2002, is \$1,442,065.

This estimate is based on the data contained in the most recent actuarial valuation prepared as of June 30, 2001.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 1678*

Short Title: Retirement System Conforming Changes.

(Public)

Sponsors: Representative Barefoot.

Referred to: Pensions and Retirement.

June 13, 2002

A BILL TO BE ENTITLED

AN ACT TO MAKE CHANGES IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM TO CONFORM WITH THE PROVISIONS OF THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 120-4.16 reads as rewritten:

"§ 120-4.16. Repayments and purchases.

(a) All repayments and purchases of service credit, allowed under this Article, shall be made within two years after the member first becomes eligible to make such repayments and purchases. All such repayments and purchases not made within two years after the member becomes eligible shall equal the full actuarial cost of the additional service credit as defined in G.S. 135-4(m).

(b) Purchase of Service Credits Through Rollover Contributions From Certain Other Plans. – Notwithstanding any other provision of this Article, and without regard to any limitations on contributions otherwise set forth in this Article, a member, who is eligible to restore or purchase membership or creditable service pursuant to the provisions of this Article, may purchase such service credits through participant rollover contributions to the annuity savings fund from (i) an annuity contract described in Section 403(b) of the Internal Revenue Code, (ii) an eligible plan under Section 457(b) of the Internal Revenue Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state, (iii) an individual retirement account or annuity described in Section 408(a) or 408(b) of the Internal Revenue Code that is eligible to be rolled over and would otherwise be includible in gross income, (iv) or a qualified plan described in 401(a) or 403(a) of the Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not accept any amount unless such amount is eligible to be rolled over to a qualified trust in

1 accordance with applicable law and the member provides evidence satisfactory to the
2 Retirement System that such amount qualifies for rollover treatment. Unless received by
3 the Retirement System in the form of a direct rollover, the rollover contribution must be
4 paid to the Retirement System on or before the 60th day after the date it was received by
5 the member.

6 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
7 other provision of this Article, and without regard to any limitations on contributions
8 otherwise set forth in this Article, a member, who is eligible to restore or purchase
9 membership or creditable service pursuant to the provisions of this Article, may
10 purchase such service credits through a direct transfer to the annuity savings fund of
11 funds from (i) an annuity contract described in Section 403(b) of the Internal Revenue
12 Code or (ii) an eligible plan under Section 457(b) of the Code which is maintained by a
13 state, political subdivision of a state, or any agency or instrumentality of a state or
14 political subdivision of a state.

15 (c) Purchase of Service Credits Through Plan-to-Plan Transfers. –
16 Notwithstanding any other provision of this Article, and without regard to any
17 limitations on contributions otherwise set forth in this Article, a member, who is eligible
18 to restore or purchase membership or creditable service pursuant to the provisions of
19 this Article, may purchase such service credits through a direct transfer to the annuity
20 savings fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of
21 North Carolina or (ii) any other defined contribution plan qualified under Section 401(a)
22 of the Internal Revenue Code which is maintained by the State of North Carolina, a
23 political subdivision of a state, or any agency or instrumentality of a state or political
24 subdivision of a state."

25 **SECTION 2. 120-4.31 reads as rewritten:**

26 **"§ 120-4.31. Internal Revenue Code compliance.**

27 (a) Notwithstanding any other provisions of law to the contrary, compensation
28 for any calendar year after 1988 in which employee or employer contributions are made
29 and for which annual compensation is used for computing any benefit under this Article
30 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
31 determined by the Commissioner of Internal Revenue as the limitation for calendar
32 years after 1989; provided the imposition of the limitation shall not reduce a member's
33 benefit below the amount determined as of December 31, 1988.

34 Effective January 1, 1996, the annual compensation of a member taken into account
35 for determining all benefits provided under this Article shall not exceed one hundred
36 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
37 Internal Revenue Code and any regulations issued under the Code. However, with
38 respect to a person who became a member of the Retirement System prior to January 1,
39 1996, the imposition of this limitation on compensation shall not reduce the amount of
40 compensation which may be taken into account for determining the benefits of that
41 member under this Article below the amount of compensation which would have been
42 recognized under the provisions of this Article in effect on July 1, 1993.

43 Effective January 1, 2002, the annual compensation of a person, who became a
44 member of the Retirement System on or after January 1, 1996, taken into account for

1 determining all benefits accruing under this Article for any plan year after December 31,
2 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
3 otherwise set by the Internal Revenue Code or determined by the Commissioner of
4 Internal Revenue as the limitation for calendar years after 2002.

5 (b) Notwithstanding any other provisions of law to the contrary, the annual
6 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
7 required by Section 415(b) and (e) and with respect to calendar years commencing prior
8 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
9 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
10 member is a participant under any qualified defined contributions plan that is required
11 to be taken into account for the purposes of the limitation contained in Section 415 of
12 the Internal Revenue Code, the annual benefit payable under this Article shall be
13 reduced to the extent required by Section 415(e) prior to making any reduction under
14 the defined contribution plan provided by the employer. However, with respect to a
15 member who has benefits accrued under this Article but whose benefit had not
16 commenced as of December 31, 1999, the combined plan limitation contained in
17 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
18 calendar years commencing on or after January 1, 2001.

19 (c) On and after January 1, 1989, the retirement allowance of a member who has
20 terminated employment shall begin no later than the later of April 1 of the calendar year
21 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
22 calendar year following the calendar year in which the member terminates employment.

23 (d) This subsection applies to distributions made on or after January 1, 1993.
24 Notwithstanding any other provision of the Plan to the contrary that would otherwise
25 limit a distributee's election under this Article, a distributee may elect, at the time and in
26 the manner prescribed by the Plan administrator, to have any portion of an eligible
27 rollover distribution paid directly to an eligible retirement plan specified by the
28 distributee in a direct rollover. Provided, an eligible rollover distribution is any
29 distribution of all or any portion of the balance to the credit of the distributee, except
30 that an eligible rollover distribution does not include: any distribution that is one of a
31 series of substantially equal periodic payments (not less frequently than annually) made
32 for the life (or life expectancy) of the distributee or the joint lives (or joint life
33 expectancies) of the distributee and the distributee's designated beneficiary, or for a
34 specified period of 10 years or more; any distribution to the extent such distribution is
35 required under section 401(a)(9) of the Code; and the portion of any distribution that is
36 not includible in gross income (determined without regard to the exclusion for net
37 realized appreciation with respect to employer securities). Effective as of January 1,
38 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
39 fail to be an eligible rollover distribution merely because the portion consists of after-
40 tax employee contributions that are not includible in gross income. However, such
41 portion may be transferred only to an individual retirement account or annuity described
42 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
43 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
44 amounts so transferred, including separately accounting for the portion of such

1 distribution which is includible in gross income and the portion of such distribution
2 which is not so includible. Provided, an eligible retirement plan is an individual
3 retirement account described in section 408(a) of the Code, an individual retirement
4 annuity described in section 408(b) of the Code, an annuity plan described in section
5 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
6 accepts the distributee's eligible rollover distribution. However, in case of an eligible
7 rollover distribution to the surviving spouse, an eligible retirement plan is an individual
8 retirement account or an individual retirement annuity. Effective on and after January 1,
9 2002, an eligible retirement plan shall also mean an annuity contract described in
10 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
11 is maintained by a state, political subdivision of a state, or any agency or instrumentality
12 of a state or political subdivision of a state and which agrees to separately account for
13 amounts transferred into such plan from this Plan. The definition of eligible retirement
14 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
15 former spouse who is the alternate payee under a qualified domestic relations order, as
16 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
17 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
18 includes an employee or former employee. In addition, the employee's or former
19 employee's surviving spouse and the employee's or former employee's spouse or former
20 spouse who is the alternate payee under a qualified domestic relations order, as defined
21 in section 414(p) of the Code, or a court ordered equitable distribution of marital
22 property, as provided under G.S. 50-20, whichever may be applicable, are distributees
23 with regard to the interest of the spouse or former spouse. Provided further, a direct
24 rollover is a payment by the Plan to the eligible retirement plan specified by the
25 distributee."

26 **SECTION 3.** G.S.128-26 is amended by adding two new subsections to
27 read:

28 "(t) Purchase of Service Credits Through Rollover Contributions From Certain
29 Other Plans. – Notwithstanding any other provision of this Article, and without regard
30 to any limitations on contributions otherwise set forth in this Article, a member, who is
31 eligible to restore or purchase membership or creditable service pursuant to the
32 provisions of G.S. 128-26, may, subject to such rules and regulations established by the
33 Board of Trustees, purchase such service credits through participant rollover
34 contributions to the annuity savings fund from (i) an annuity contract described in
35 Section 403(b) of the Internal Revenue Code, (ii) an eligible plan under Section 457(b)
36 of the Internal Revenue Code which is maintained by a state, political subdivision of a
37 state, or any agency or instrumentality of a state or political subdivision of a state, (iii)
38 an individual retirement account or annuity described in Section 408(a) or 408(b) of the
39 Internal Revenue Code that is eligible to be rolled over and would otherwise be
40 includible in gross income, (iv) or a qualified plan described in 401(a) or 403(a) of the
41 Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not
42 accept any amount unless such amount is eligible to be rolled over to a qualified trust in
43 accordance with applicable law and the member provides evidence satisfactory to the
44 Retirement System that such amount qualifies for rollover treatment. Unless received by

1 the Retirement System in the form of a direct rollover, the rollover contribution must be
2 paid to the Retirement System on or before the 60th day after the date it was received by
3 the member.

4 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
5 other provision of this Article, and without regard to any limitations on contributions
6 otherwise set forth in this Article, a member, who is eligible to restore or purchase
7 membership or creditable service pursuant to the provisions of G.S. 128-26, may,
8 subject to such rules and regulations established by the Board of Trustees, purchase
9 such service credits through a direct transfer to the annuity savings fund of funds from
10 (i) an annuity contract described in Section 403(b) of the Internal Revenue Code or (ii)
11 an eligible plan under Section 457(b) of the Code which is maintained by a state,
12 political subdivision of a state, or any agency or instrumentality of a state or political
13 subdivision of a state.

14 (u) Purchase of Service Credits Through Plan-to-Plan Transfers. –
15 Notwithstanding any other provision of this Article, and without regard to any
16 limitations on contributions otherwise set forth in this Article, a member, who is eligible
17 to restore or purchase membership or creditable service pursuant to the provisions of
18 G.S. 128-26, may, subject to such rules and regulations established by the Board of
19 Trustees, purchase such service credits through a direct transfer to the annuity savings
20 fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of North
21 Carolina or (ii) any other defined contribution plan qualified under Section 401(a) of the
22 Internal Revenue Code which is maintained by the State of North Carolina, a political
23 subdivision of a state, or any agency or instrumentality of a state or political subdivision
24 of a state."

25 **SECTION 4. G.S. 128-38.2 reads as rewritten:**

26 **"§ 128-38.2. Internal Revenue Code compliance.**

27 (a) Notwithstanding any other provisions of law to the contrary, compensation
28 for any calendar year after 1988 in which employee or employer contributions are made
29 and for which annual compensation is used for computing any benefit under this Article
30 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
31 determined by the Commissioner of Internal Revenue as the limitation for calendar
32 years after 1989; provided the imposition of the limitation shall not reduce a member's
33 benefit below the amount determined as of December 31, 1988.

34 Effective January 1, 1996, the annual compensation of a member taken into account
35 for determining all benefits provided under this Article shall not exceed one hundred
36 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
37 Internal Revenue Code and any regulations issued under the Code. However, with
38 respect to a person who became a member of the Retirement System prior to January 1,
39 1996, the imposition of this limitation on compensation shall not reduce the amount of
40 compensation which may be taken into account for determining the benefits of that
41 member under this Article below the amount of compensation which would have been
42 recognized under the provisions of this Article in effect on July 1, 1993.

43 Effective January 1, 2002, the annual compensation of a person, who became a
44 member of the Retirement System on or after January 1, 1996, taken into account for

1 determining all benefits accruing under this Article for any plan year after December 31,
2 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
3 otherwise set by the Internal Revenue Code or determined by the Commissioner of
4 Internal Revenue as the limitation for calendar years after 2002.

5 (b) Notwithstanding any other provisions of law to the contrary, the annual
6 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
7 required by Section 415(b) ~~and (e)~~ and with respect to calendar years commencing prior
8 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
9 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
10 member is a participant under any qualified defined contributions plan that is required
11 to be taken into account for the purposes of the limitation contained in Section 415 of
12 the Internal Revenue Code, the annual benefit payable under this Article shall be
13 reduced to the extent required by Section 415(e) prior to making any reduction under
14 the defined contribution plan provided by the employer. However, with respect to a
15 member who has benefits accrued under this Article but whose benefit had not
16 commenced as of December 31, 1999, the combined plan limitation contained in
17 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
18 calendar years commencing on or after January 1, 2001.

19 (c) On and after January 1, 1989, the retirement allowance of a member who has
20 terminated employment shall begin no later than the later of April 1 of the calendar year
21 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
22 calendar year following the calendar year in which the member terminates employment.

23 (d) This subsection applies to distributions made on or after January 1, 1993.
24 Notwithstanding any other provision of the Plan to the contrary that would otherwise
25 limit a distributee's election under this Article, a distributee may elect, at the time and in
26 the manner prescribed by the Plan administrator, to have any portion of an eligible
27 rollover distribution paid directly to an eligible retirement plan specified by the
28 distributee in a direct rollover. Provided, an eligible rollover distribution is any
29 distribution of all or any portion of the balance to the credit of the distributee, except
30 that an eligible rollover distribution does not include: any distribution that is one of a
31 series of substantially equal periodic payments (not less frequently than annually) made
32 for the life (or life expectancy) of the distributee or the joint lives (or joint life
33 expectancies) of the distributee and the distributee's designated beneficiary, or for a
34 specified period of 10 years or more; any distribution to the extent such distribution is
35 required under section 401(a)(9) of the Code; and the portion of any distribution that is
36 not includible in gross income (determined without regard to the exclusion for net
37 realized appreciation with respect to employer securities). Effective as of January 1,
38 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
39 fail to be an eligible rollover distribution merely because the portion consists of after-
40 tax employee contributions which are not includible in gross income. However, such
41 portion may be transferred only to an individual retirement account or annuity described
42 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
43 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
44 amounts so transferred, including separately accounting for the portion of such

1 distribution which is includible in gross income and the portion of such distribution
2 which is not so includible. Provided, an eligible retirement plan is an individual
3 retirement account described in section 408(a) of the Code, an individual retirement
4 annuity described in section 408(b) of the Code, an annuity plan described in section
5 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
6 accepts the distributee's eligible rollover distribution. ~~However, in case of an eligible~~
7 ~~rollover distribution to the surviving spouse, an eligible retirement plan is an individual~~
8 ~~retirement account or an individual retirement annuity.~~ Effective on and after January 1,
9 2002, an eligible retirement plan shall also mean an annuity contract described in
10 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
11 is maintained by a state, political subdivision of a state, or any agency or instrumentality
12 of a state or political subdivision of a state and which agrees to separately account for
13 amounts transferred into such plan from this Plan. The definition of eligible retirement
14 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
15 former spouse who is the alternate payee under a qualified domestic relations order, as
16 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
17 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
18 includes an employee or former employee. In addition, the employee's or former
19 employee's surviving spouse and the employee's or former employee's spouse or former
20 spouse who is the alternate payee under a qualified domestic relations order, as defined
21 in section 414(p) of the Code, or a court ordered equitable distribution of marital
22 property, as provided under G.S. 50-20, whichever may be applicable, are distributees
23 with regard to the interest of the spouse or former spouse. Provided further, a direct
24 rollover is a payment by the Plan to the eligible retirement plan specified by the
25 distributee."

26 **SECTION 5.** G.S. 135-4 is amended by adding two new subsections to read:

27 "(dd) Purchase of Service Credits Through Rollover Contributions From Certain
28 Other Plans. – Notwithstanding any other provision of this Article, and without regard
29 to any limitations on contributions otherwise set forth in this Article, a member, who is
30 eligible to restore or purchase membership or creditable service pursuant to the
31 provisions of G.S. 135-4, may, subject to such rules and regulations established by the
32 Board of Trustees, purchase such service credits through participant rollover
33 contributions to the annuity savings fund from (i) an annuity contract described in
34 Section 403(b) of the Internal Revenue Code, (ii) an eligible plan under Section 457(b)
35 of the Internal Revenue Code which is maintained by a state, political subdivision of a
36 state, or any agency or instrumentality of a state or political subdivision of a state, (iii)
37 an individual retirement account or annuity described in Section 408(a) or 408(b) of the
38 Internal Revenue Code that is eligible to be rolled over and would otherwise be
39 includible in gross income, (iv) or a qualified plan described in 401(a) or 403(a) of the
40 Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not
41 accept any amount unless such amount is eligible to be rolled over to a qualified trust in
42 accordance with applicable law and the member provides evidence satisfactory to the
43 Retirement System that such amount qualifies for rollover treatment. Unless received by
44 the Retirement System in the form of a direct rollover, the rollover contribution must be

1 paid to the Retirement System on or before the 60th day after the date it was received by
2 the member.

3 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
4 other provision of this Article, and without regard to any limitations on contributions
5 otherwise set forth in this Article, a member, who is eligible to restore or purchase
6 membership or creditable service pursuant to the provisions of G.S. 135-4, may, subject
7 to such rules and regulations established by the Board of Trustees, purchase such
8 service credits through a direct transfer to the annuity savings fund of funds from (i) an
9 annuity contract described in Section 403(b) of the Internal Revenue Code or (ii) an
10 eligible plan under Section 457(b) of the Code which is maintained by a state, political
11 subdivision of a state, or any agency or instrumentality of a state or political subdivision
12 of a state.

13 (ee) Purchase of Service Credits Through Plan-to-Plan Transfers. –
14 Notwithstanding any other provision of this Article, and without regard to any
15 limitations on contributions otherwise set forth in this Article, a member, who is eligible
16 to restore or purchase membership or creditable service pursuant to the provisions of
17 G.S. 135-4, may, subject to such rules and regulations established by the Board of
18 Trustees, purchase such service credits through a direct transfer to the annuity savings
19 fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of North
20 Carolina or (ii) any other defined contribution plan qualified under Section 401(a) of the
21 Internal Revenue Code which is maintained by the State of North Carolina, a political
22 subdivision of a state, or any agency or instrumentality of a state or political subdivision
23 of a state."

24 **SECTION 6.** G.S. 135-18.7 reads as rewritten:

25 **"§ 135-18.7. Internal Revenue Code compliance.**

26 (a) Notwithstanding any other provisions of law to the contrary, compensation
27 for any calendar year after 1988 in which employee or employer contributions are made
28 and for which annual compensation is used for computing any benefit under this Article
29 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
30 determined by the Commissioner of Internal Revenue as the limitation for calendar
31 years after 1989; provided the imposition of the limitation shall not reduce a member's
32 benefit below the amount determined as of December 31, 1988.

33 Effective January 1, 1996, the annual compensation of a member taken into account
34 for determining all benefits provided under this Article shall not exceed one hundred
35 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
36 Internal Revenue Code and any regulations issued under the Code. However, with
37 respect to a person who became a member of the Retirement System prior to January 1,
38 1996, the imposition of this limitation on compensation shall not reduce the amount of
39 compensation which may be taken into account for determining the benefits of that
40 member under this Article below the amount of compensation which would have been
41 recognized under the provisions of this Article in effect on July 1, 1993.

42 Effective January 1, 2002, the annual compensation of a person, who became a
43 member of the Retirement System on or after January 1, 1996, taken into account for
44 determining all benefits accruing under this Article for any plan year after December 31,

2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount otherwise set by the Internal Revenue Code or determined by the Commissioner of Internal Revenue as the limitation for calendar years after 2002.

(b) Notwithstanding any other provisions of law to the contrary, the annual benefit payable on behalf of a member shall, if necessary, be reduced to the extent required by Section 415(b) ~~and (e)~~ and with respect to calendar years commencing prior to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a member is a participant under any qualified defined contributions plan that is required to be taken into account for the purposes of the limitation contained in Section 415 of the Internal Revenue Code, the annual benefit payable under this Article shall be reduced to the extent required by Section 415(e) prior to making any reduction under the defined contribution plan provided by the employer. However, with respect to a member who has benefits accrued under this Article but whose benefit had not commenced as of December 31, 1999, the combined plan limitation contained in Section 415(e) of the Internal Revenue Code shall not be applied to such member for calendar years commencing on or after January 1, 2001.

(c) On and after January 1, 1989, the retirement allowance of a member who has terminated employment shall begin no later than the later of April 1 of the calendar year following the calendar year that the member attains 70 1/2 years of age or April 1 of the calendar year following the calendar year in which the member terminates employment.

(d) This subsection applies to distributions made on or after January 1, 1993. Notwithstanding any other provision of the Plan to the contrary that would otherwise limit a distributee's election under this Article, a distributee may elect, at the time and in the manner prescribed by the Plan administrator, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. Provided, an eligible rollover distribution is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of 10 years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net realized appreciation with respect to employer securities). Effective as of January 1, 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be transferred only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution

1 which is not so includible. Provided, an eligible retirement plan is an individual
2 retirement account described in section 408(a) of the Code, an individual retirement
3 annuity described in section 408(b) of the Code, an annuity plan described in section
4 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
5 accepts the distributee's eligible rollover distribution. ~~However, in case of an eligible~~
6 ~~rollover distribution to the surviving spouse, an eligible retirement plan is an individual~~
7 ~~retirement account or an individual retirement annuity.~~ Effective on and after January 1,
8 2002, an eligible retirement plan shall also mean an annuity contract described in
9 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
10 is maintained by a state, political subdivision of a state, or any agency or instrumentality
11 of a state or political subdivision of a state and which agrees to separately account for
12 amounts transferred into such plan from this Plan. The definition of eligible retirement
13 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
14 former spouse who is the alternate payee under a qualified domestic relations order, as
15 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
16 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
17 includes an employee or former employee. Provided, a distributee includes an employee
18 or former employee. ~~In addition, the employee's or former employee's surviving spouse~~
19 ~~and the employee's or former employee's spouse or former spouse who is the alternate~~
20 ~~payee under a qualified domestic relations order, as defined in section 414(p) of the~~
21 ~~Code, or a court ordered equitable distribution of marital property, as provided under~~
22 ~~G.S. 50-20, whichever may be applicable, are distributees with regard to the interest of~~
23 ~~the spouse or former spouse.~~ Provided further, a direct rollover is a payment by the Plan
24 to the eligible retirement plan specified by the distributee."

25 **SECTION 7.** Article 4 of Chapter 135 of the General Statutes is amended by
26 adding a new section to read:

27 **"§ 135-56.3. Repayments and Purchases.**

28 (a) Purchase of Service Credits Through Rollover Contributions From Certain
29 Other Plans. – Notwithstanding any other provision of this Article, and without regard
30 to any limitations on contributions otherwise set forth in this Article, a member, who is
31 eligible to restore or purchase membership or creditable service pursuant to the
32 provisions of this Article, may, subject to such rules and regulations established by the
33 Board of Trustees, purchase such service credits through participant rollover
34 contributions to the annuity savings fund from (i) an annuity contract described in
35 Section 403(b) of the Internal Revenue Code, (ii) an eligible plan under Section 457(b)
36 of the Internal Revenue Code which is maintained by a state, political subdivision of a
37 state, or any agency or instrumentality of a state or political subdivision of a state, (iii)
38 an individual retirement account or annuity described in Section 408(a) or 408(b) of the
39 Internal Revenue Code that is eligible to be rolled over and would otherwise be
40 includible in gross income, (iv) or a qualified plan described in 401(a) or 403(a) of the
41 Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not
42 accept any amount unless such amount is eligible to be rolled over to a qualified trust in
43 accordance with applicable law and the member provides evidence satisfactory to the
44 Retirement System that such amount qualifies for rollover treatment. Unless received by

1 the Retirement System in the form of a direct rollover, the rollover contribution must be
2 paid to the Retirement System on or before the 60th day after the date it was received by
3 the member.

4 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
5 other provision of this Article, and without regard to any limitations on contributions
6 otherwise set forth in this Article, a member, who is eligible to restore or purchase
7 membership or creditable service pursuant to the provisions of this Article, may, subject
8 to such rules and regulations established by the Board of Trustees, purchase such
9 service credits through a direct transfer to the annuity savings fund of funds from (i) an
10 annuity contract described in Section 403(b) of the Internal Revenue Code or (ii) an
11 eligible plan under Section 457(b) of the Code which is maintained by a state, political
12 subdivision of a state, or any agency or instrumentality of a state or political subdivision
13 of a state.

14 (b) Purchase of Service Credits Through Plan-to-Plan Transfers. –
15 Notwithstanding any other provision of this Article, and without regard to any
16 limitations on contributions otherwise set forth in this Article, a member, who is eligible
17 to restore or purchase membership or creditable service pursuant to the provisions of
18 this Article, may, subject to such rules and regulations established by the Board of
19 Trustees, purchase such service credits through a direct transfer to the annuity savings
20 fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of North
21 Carolina or (ii) any other defined contribution plan qualified under Section 401(a) of the
22 Internal Revenue Code which is maintained by the State of North Carolina, a political
23 subdivision of a state, or any agency or instrumentality of a state or political subdivision
24 of a state."

25 **SECTION 8. G.S. 135-74 reads as rewritten:**

26 **"§ 135-74. Internal Revenue Code compliance.**

27 (a) Notwithstanding any other provisions of law to the contrary, compensation
28 for any calendar year after 1988 in which employee or employer contributions are made
29 and for which annual compensation is used for computing any benefit under this Article
30 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
31 determined by the Commissioner of Internal Revenue as the limitation for calendar
32 years after 1989; provided the imposition of the limitation shall not reduce a member's
33 benefit below the amount determined as of December 31, 1988.

34 Effective January 1, 1996, the annual compensation of a member taken into account
35 for determining all benefits provided under this Article shall not exceed one hundred
36 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
37 Internal Revenue Code and any regulations issued under the Code. However, with
38 respect to a person who became a member of the Retirement System prior to January 1,
39 1996, the imposition of this limitation on compensation shall not reduce the amount of
40 compensation which may be taken into account for determining the benefits of that
41 member under this Article below the amount of compensation which would have been
42 recognized under the provisions of this Article in effect on July 1, 1993.

43 Effective January 1, 2002, the annual compensation of a person, who became a
44 member of the Retirement System on or after January 1, 1996, taken into account for

1 determining all benefits accruing under this Article for any plan year after December 31,
2 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
3 otherwise set by the Internal Revenue Code or determined by the Commissioner of
4 Internal Revenue as the limitation for calendar years after 2002.

5 (b) Notwithstanding any other provisions of law to the contrary, the annual
6 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
7 required by Section 415(b) ~~and (e)~~ and with respect to calendar years commencing prior
8 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
9 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
10 member is a participant under any qualified defined contributions plan that is required
11 to be taken into account for the purposes of the limitation contained in Section 415 of
12 the Internal Revenue Code, the annual benefit payable under this Article shall be
13 reduced to the extent required by Section 415(e) prior to making any reduction under
14 the defined contribution plan provided by the employer. However, with respect to a
15 member who has benefits accrued under this Article but whose benefit had not
16 commenced as of December 31, 1999, the combined plan limitation contained in
17 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
18 calendar years commencing on or after January 1, 2001.

19 (c) On and after January 1, 1989, the retirement allowance of a member who has
20 terminated employment shall begin no later than the later of April 1 of the calendar year
21 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
22 calendar year following the calendar year in which the member terminates employment.

23 (d) This subsection applies to distributions made on or after January 1, 1993.
24 Notwithstanding any other provision of the Plan to the contrary that would otherwise
25 limit a distributee's election under this Article, a distributee may elect, at the time and in
26 the manner prescribed by the Plan administrator, to have any portion of an eligible
27 rollover distribution paid directly to an eligible retirement plan specified by the
28 distributee in a direct rollover. Provided, an eligible rollover distribution is any
29 distribution of all or any portion of the balance to the credit of the distributee, except
30 that an eligible rollover distribution does not include: any distribution that is one of a
31 series of substantially equal periodic payments (not less frequently than annually) made
32 for the life (or life expectancy) of the distributee or the joint lives (or joint life
33 expectancies) of the distributee and the distributee's designated beneficiary, or for a
34 specified period of 10 years or more; any distribution to the extent such distribution is
35 required under section 401(a)(9) of the Code; and the portion of any distribution that is
36 not includible in gross income (determined without regard to the exclusion for net
37 realized appreciation with respect to employer securities). Effective as of January 1,
38 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
39 fail to be an eligible rollover distribution merely because the portion consists of after-
40 tax employee contributions which are not includible in gross income. However, such
41 portion may be transferred only to an individual retirement account or annuity described
42 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
43 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
44 amounts so transferred, including separately accounting for the portion of such

1 distribution which is includible in gross income and the portion of such distribution
2 which is not so includible. Provided, an eligible retirement plan is an individual
3 retirement account described in section 408(a) of the Code, an individual retirement
4 annuity described in section 408(b) of the Code, an annuity plan described in section
5 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
6 accepts the distributee's eligible rollover distribution. ~~However, in case of an eligible~~
7 ~~rollover distribution to the surviving spouse, an eligible retirement plan is an individual~~
8 ~~retirement account or an individual retirement annuity.~~ Effective on and after January 1,
9 2002, an eligible retirement plan shall also mean an annuity contract described in
10 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
11 is maintained by a state, political subdivision of a state, or any agency or instrumentality
12 of a state or political subdivision of a state and which agrees to separately account for
13 amounts transferred into such plan from this Plan. The definition of eligible retirement
14 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
15 former spouse who is the alternate payee under a qualified domestic relations order, as
16 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
17 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
18 includes an employee or former employee. ~~In addition, the employee's or former~~
19 ~~employee's surviving spouse and the employee's or former employee's spouse or former~~
20 ~~spouse who is the alternate payee under a qualified domestic relations order, as defined~~
21 ~~in section 414(p) of the Code, or a court-ordered equitable distribution of marital~~
22 ~~property, as provided under G.S. 50-20, whichever may be applicable, are distributees~~
23 ~~with regard to the interest of the spouse or former spouse.~~ Provided further, a direct
24 rollover is a payment by the Plan to the eligible retirement plan specified by the
25 distributee."

26 **SECTION 9.** Sections 1, 3, 5, and 7 of this act become effective January 1,
27 2003, except that G.S. 120-4.16(c), 128-26(u), 135-4(ee), and 135-56.3(b), as enacted in
28 those sections, become effective the later of January 1, 2003, or the date upon which the
29 Department of State Treasurer receives a ruling from the Internal Revenue Service
30 approving the direct transfers provided for in those subsections. The remainder of this
31 act is effective when it becomes law.



**North Carolina General Assembly
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Terrence D. Sullivan, Director
Research Division
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

July 3, 2002

MEMORANDUM

TO: Representative Barefoot

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1678

Re: Retirement System Conforming Changes

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note. Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1678

SHORT TITLE: Retirement System Conforming Changes

SPONSOR: Representative Barefoot

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

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

BILL SUMMARY: Makes changes to the four major retirement systems to conform to the Economic Growth and Tax Relief Reconciliation Act of 2001. The bill allows for the use of rollover contributions from other plans to make service purchases in the four systems. It also increases the level of compensation for plan years after December 31, 2001, to \$200,000.

EFFECTIVE DATE: When it becomes law except that sections 1, 3, 5 and 7 become effective January 1, 2003. Parts become effective either January 1, 2003, or the date which ruling by IRS is received.

'STIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost would be negligible and would have no material impact.

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, 2000, actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

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, 2000, actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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.

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, 2000, actuarial valuation of the fund. The data included 470 active members with an annual payroll of \$43.5 million and 368 retired members in receipt of annual pensions totaling \$14.5 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, 2000, actuarial valuation of the fund. The data included 172 active members with an annual payroll of \$3.7 million and 189 retired members in receipt of annual pensions totaling \$1,055,125. 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION (919) 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson



DATE: July 1, 2002

BUCK CONSULTANTS™

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

House Bill 1678

Dear Mr. Williamson:

We have received your letter of June 15 regarding House Bill 1678 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

This legislation appears to amend the Plans to conform to certain permissive provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 as well as to make certain mandatory changes. Specifically, this legislation appears to amend the plans to allow the purchase of service credits through rollover contributions from (i) an annuity contract described in Section 403(b) of the Code, (ii) and eligible plan under Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (iii) an individual retirement account or annuity described in Section 408(a) or 408(b) of the Code, or (iv) a qualified plan described in Section 401(a) or 403(a) of the Code. This legislation appears to amend the plans to allow the purchase of service credits through a direct transfer of funds from (i) an annuity contract described in Section 403(b) of the Code, or (ii) an eligible plan under Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state. In addition, this legislation appears to amend the plans to allow the purchase of service credits through a direct transfer of funds from (i) the Supplemental Retirement Income Plans A, B, or C, or (ii) any other defined contribution plan qualified under Section 401(a) of the Code which is maintained by the State of North Carolina, a political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (subject to a ruling from the Internal Revenue Service approving this direct transfer).

Mr. Michael L. Williamson

June 19, 2002

Page 2

This legislation also appears to amend the Plans to increase the compensation taken into account in determining all benefits to \$200,000 for persons becoming members on or after January 1, 1996. The remaining amendments to the Internal Revenue Code compliance sections, as we understand, are to bring the Plans in compliance with mandatory Internal Revenue Code changes affecting these Plans.

The impact of this legislation on the various Retirement Systems would be negligible.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

RK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 26, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1678: An Act to Make Changes in the TSERS, CJRS,
LRS, and LGERS to Conform with the Provisions of EGTRRA

Dear Mr. Moore:

This bill would amend the North Carolina General Statutes to conform provisions in the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS) to the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The changes provided by this bill are as follows:

- allow members to purchase eligible service credits through rollover contributions from qualified retirement plans;
- increase the limit on plan compensation to \$200,000;
- repeal the limit on benefits when a member participates in both a defined contribution and defined benefit plan;
- allow members to roll after-tax employee contributions to certain plans that agree to separately account for such funds; and
- allow members to roll eligible funds to a Section 403(b) or 457 plan.

The provisions of this act related to the purchase of service credits through rollover contributions are generally effective January 1, 2003. The remainder of this act is effective when it becomes law.

The increase in the compensation limit will increase retirement benefits for certain employees, producing a cost to the

Mr. Stanley Moore
June 26, 2002

Page 2

retirement system. We have estimated the annual cost at \$4,000-\$5,000 for each member whose compensation exceeds the prior annual limit of \$170,000. The number of employees affected is expected to be small in comparison to the size of each plan. Thus, these changes are not expected to have a material financial impact in the TSERS, CJRS, LRS, and LGERS.

These estimates are based on information contained in the most recent actuarial valuations prepared as of December 31, 2000.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1664

Short Title: Judicial Retirement/Guaranteed Refunds.

(Public)

Sponsors: Representative Barefoot.

Referred to: Pensions and Retirement.

June 13, 2002

A BILL TO BE ENTITLED

AN ACT TO GUARANTEE THAT EACH RETIRED MEMBER OF THE
CONSOLIDATED JUDICIAL RETIREMENT SYSTEM RECEIVING
RETIREMENT ALLOWANCES SHALL RECEIVE BENEFITS IN AN AMOUNT
NOT LESS THAN THE ACCUMULATED CONTRIBUTIONS OF THE
RETIREE AT RETIREMENT.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 135-64(c) reads as rewritten:

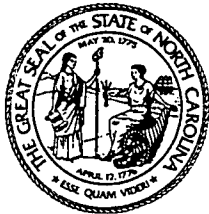
"(c) In the event of the death of a former member while in receipt of a retirement allowance under the provisions of G.S. ~~135-58 or 135-60 (but not 135-61)~~, G.S. 135-58, 135-60, or 135-61, if such former member is not survived by a spouse to whom a retirement allowance is payable under the provisions of subsection (a) or subsection (b) above, nor survived by a beneficiary to whom a monthly survivorship benefit is payable under one of the optional modes of payment under G.S. 135-61, there shall be paid to such person as the member shall have nominated by written designation duly acknowledged and filed with the Board of Trustees, if such person is living at the time of the member's death, otherwise to the member's legal representatives, a death benefit equal to the excess, if any, of the accumulated contributions of the member at his date of retirement over the total of the retirement allowances paid to him prior to his death."

SECTION 2. G.S. 135-64(d) reads as rewritten:

"(d) In the event that a retirement allowance becomes payable to the spouse of a former member under the provisions of subsection (a) or subsection (b) above, ~~provided that the member's retirement allowance had not been paid or to the designated survivor of a former member~~ under one of the optional modes of payment under G.S. 135-61, and such retirement allowance to the spouse shall terminate on the remarriage or death of the ~~spouse~~ spouse, or on the death of the designated survivor, before the total of the retirement allowances paid to the former member and his spouse or designated survivor combined equals the amount of the member's accumulated contributions at his date of retirement, the excess of such accumulated contributions over the total of the retirement

1 allowances paid to the former member and his spouse or designated survivor combined
2 shall be paid in a lump sum to such person as the member shall have nominated by
3 written designation duly acknowledged and filed with the Board of Trustees, if such
4 person is living at the time such payment falls due, otherwise to the former member's
5 legal representatives."

6 **SECTION 3.** This act becomes effective July 1, 2002, and applies to former
7 members of the Consolidated Judicial Retirement System dying on or after that date.



HOUSE BILL 1664: Judicial Retirement/Guaranteed Refunds.

BILL ANALYSIS

Committee: House Pensions and Retirement

Date: July 10, 2002

Version: First Edition

Introduced by: Rep. Barefoot

Summary by: Karen Cochrane Brown

Committee Counsel

SUMMARY: *This bill amends the law governing the Consolidated Judicial Retirement System regarding benefits payable on death after retirement. The amendments insure that all of a retired member's accumulated contributions are returned if the retiree dies prior to receiving all of the contributions as part of the retirement allowance.*

CURRENT LAW:

Under current law, a member of the Judicial Retirement System may retire with full benefits when the member has attained age 65 or has completed 24 years of service. In addition, a member may receive a disability retirement allowance if the member has completed at least five years of service. When a former member dies after having retired for service or disability, the law currently provides that if the retiree leaves a surviving spouse, the spouse receives a benefit equal to one-half the retirement allowance paid to the former member until the spouse's death or remarriage. The benefit is reduced if the surviving spouse is younger than the former member.

At retirement, a member of the Judicial Retirement System may elect to provide an optional survivor's allowance to a designated beneficiary. In this case, the member's retirement allowance is actuarially reduced to account for the optional allowance. No reduction is required to provide the joint and survivor allowance for a surviving spouse.

Currently, if the retiree and the surviving spouse, if any, die prior to receiving all of the former member's accumulated contributions, the excess contributions will be paid in a lump sum to the member's designated beneficiary or if such person is not living, to the member's legal representative. However, if the member elected an optional survivor's benefit at retirement and dies prior to receiving all of his or her accumulated contributions, the excess is not paid to the legal representative.

BILL ANALYSIS:

This bill amends the law to guarantee that a member's accumulated contributions will be returned if the member elects an optional survivor's benefit, just as it would if the member died without having made such an election.

This act would become effective July 1, 2002, and apply to former members who die on or after that date.



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Raleigh, NC 27603-5925
(919) 733-2578

July 3, 2002

MEMORANDUM

TO: Representative Barefoot

FROM: Stanley Moore 
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1664

Re: Judicial Retirement/Guaranteed Refunds

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1664

SHORT TITLE: Judicial Retirement/Guaranteed Refunds

SPONSOR(S): Representative Barefoot

SYSTEM OR PROGRAM AFFECTED: Consolidated Judicial Retirement System

FUNDS AFFECTED: General Fund

BILL SUMMARY: The bill guarantees a payment will be made to the legal representative if the amount of retirement benefits received by the member, spouse or designated survivor does not equal the member's accumulated contributions and interest. The payment will be the difference between the member's accumulated contributions and interest and amount of retirement benefit paid to all parties. Presently, no benefits are payable if the member chooses a joint and survivorship option.

EFFECTIVE DATE: July 1, 2002 and applies to former members who die on or after that date.

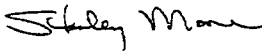
ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost would be negligible. Most members will recover the amount of their contributions and interest in a short period of time and the probability of all parties dying within the recovery period would be very low.

ASSUMPTIONS AND METHODOLOGY: 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, 2000, actuarial valuation of the fund. The data included 470 active members with an annual payroll of \$43.5 million and 368 retired members in receipt of annual pensions totaling \$14.5 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION (919) 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson 

DATE: July 1, 2002

BUCK CONSULTANTS[®]

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1388

House Bill 1664

Dear Mr. Williamson:

We have received your letter of June 15 regarding House Bill 1664, which affects the Consolidated Judicial Retirement System.

This legislation appears to amend the Consolidated Judicial Retirement System to extend a death benefit equal to the excess, if any, of the accumulated contributions of a member at his date of retirement over the total of the retirement allowances paid to him prior to this death in the event he is not survived by the beneficiary designated to receive a monthly survivorship benefit under the provisions of G.S. 135-61. Also, this legislation appears to extend a death benefit equal to the excess of the member's accumulated contributions at his date of retirement, if any, over the total of the retirement allowances paid to the former member, and his spouse or designated survivor in the event the designated beneficiary under G.S. 135-61 dies and all benefits terminate. Currently, this death benefit is not applicable when a member provides a monthly survivorship benefit under one of the optional modes of payment under G.S. 135-61.

The cost of this legislation is negligible.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

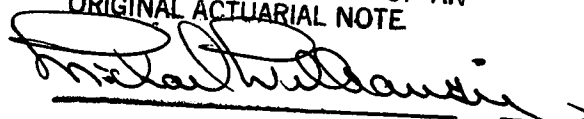


Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

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THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

RK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 28, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1664: An Act to Guarantee that Each Retired
Member of the CJRS Receive Benefits in an Amount not Less
Than His Accumulated Contributions

Dear Mr. Moore:

This bill would amend G.S. 135-64 to provide that a member of the Consolidated Judicial Retirement System (CJRS) will receive benefit payments at least equal to his accumulated contributions, regardless of the annuity option chosen. Currently, this minimum death benefit is provided only if the benefit is being paid under the standard form to the member and his spouse. This act becomes effective July 1, 2002.

In certain cases, this act would increase the amount paid upon the death of a retired member in the CJRS. However, our analysis shows that the probability that a retired member dies before receiving payments equal to his accumulated contributions is minimal. Thus, the financial impact of this act on the Plan is expected to be negligible.

This estimate is based on information contained in the most recent actuarial valuation prepared as of December 31, 2000.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

1

HOUSE BILL 1666*

Short Title: Charlotte Firemen's Retirement System. (Local)

Sponsors: Representatives Alexander; Easterling, McMahan, and Cunningham.

Referred to: Pensions and Retirement.

June 13, 2002

A BILL TO BE ENTITLED
AN ACT TO AMEND THE LAW ESTABLISHING THE CHARLOTTE FIREMEN'S
RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. Subdivision (9) of Section 2 of Chapter 926 of the 1947 Session Laws, as rewritten by Section 1 of Chapter 830 of the 1991 Session Laws, as amended by Chapter 171 of the 1995 Session Laws, Chapter 640 of the 1993 Session Laws, S.L. 1999-100, and S.L. 2001-22, reads as rewritten:

"(9) 'Compensation' means the remuneration reportable on Form W-2 earned by a Member for services performed as an employee of the Charlotte Fire Department prior to any reductions pursuant to sections 125, 401(k), 402(k), 402(e)(3), 414(h)(2), and 457 of the Internal Revenue Code. Compensation shall include payments for unused sick and vacation days, longevity payments, bonus payments, and merit increases. For the purpose of calculating a Member's Final Average Salary, (i) payments for unused sick and vacation days shall be included as Compensation to the extent that the vacation and sick days for which payments are made could have accrued during two Plan Years of the Member's last five years of Membership Service, and (ii) payments for longevity shall be included as Compensation to the extent such payments were made during two Plan Years of the Member's last five years of Membership Service. Effective July 1, 2002, for purposes of applying the limitations described in Section 51 of this Act, compensation paid or made available during such limitation years shall also include elective amounts that are not includible in the gross estate of the Member by reason of section 132(f)(4) of the Internal Revenue Code.

In addition to the other applicable limitations set forth in this Act, and notwithstanding any other provision of this Act to the contrary, for

1 Plan Years beginning on or after January 1, 1996, the annual
2 Compensation of each Member taken into account under the Act shall
3 not exceed the OBRA '93 annual compensation limit. The OBRA '93
4 annual compensation limit is one hundred fifty thousand dollars
5 (\$150,000), as adjusted by the Commissioner for increases in the cost
6 of living in accordance with section 401(a)(17)(B) of the Internal
7 Revenue Code. The cost of living adjustment in effect for a calendar
8 year applies to any period not exceeding 12 months over which
9 Compensation is determined ('the determination period') beginning in
10 each calendar year. If a determination period consists of fewer than 12
11 months, the OBRA '93 annual compensation limit will be multiplied
12 by a fraction, the numerator of which is the number of months in the
13 determination period, and the denominator of which is 12. If
14 Compensation for any prior determination period is taken into account
15 in determining a Member's benefits accruing in the current Plan Year,
16 the Compensation for that prior determination period is subject to the
17 OBRA '93 annual compensation limit in effect for that prior
18 determination period. For this purpose, for determination periods
19 beginning before the first day of the first Plan Year beginning on or
20 after January 1, 1996, the OBRA '93 annual compensation limit is one
21 hundred fifty thousand dollars (\$150,000). January 1, 2002, the annual
22 Compensation of each Member taken into account under the Act shall
23 not exceed two hundred thousand dollars (\$200,000), the annual
24 compensation limit under section 401(a)(17) of the Internal Revenue
25 Code, as amended by section 611(c) of the Economic Growth and Tax
26 Relief Reconciliation Act of 2001. Annual compensation means
27 compensation during the Plan Year or such other 12-month period
28 over which Compensation is otherwise determined (the 'determination
29 period'). If a determination period consists of fewer than 12 months,
30 the annual compensation limit will be multiplied by a fraction, the
31 numerator of which is the number of months in the determination
32 period, and the denominator of which is 12. For purposes of
33 determining benefit accruals in a plan year, beginning after December
34 31, 2001, the compensation limit for any prior determination period
35 shall be two hundred thousand dollars (\$200,000). The two hundred
36 thousand dollars (\$200,000) limit on annual compensation shall be
37 adjusted for cost-of-living increases in accordance with section
38 401(a)(17)(B) of the Code."

39 **SECTION 2.** Section 7 of Chapter 926 of the 1947 Session Laws, as
40 rewritten by Section 1 of Chapter 830 of the 1991 Session Laws, as amended by
41 Chapter 171 of the 1995 Session Laws, Chapter 640 of the 1993 Session Laws, S.L.
42 1999-100, and S.L. 2001-22, reads as rewritten:

43 "Sec. 7. **Purchase of Membership Service Credit for Prior Active Military Duty.**
44 **Credit.**

1 (a) Military Service. – Effective July 1, 1999, Membership Service Credit for
2 prior active military duty may be purchased upon the completion of five years of
3 Membership Service Credit by any Member who served on active duty in the Armed
4 Forces of the United States of America prior to his employment with the Charlotte Fire
5 Department. Such Membership Credit shall be purchased by the Member before
6 termination of membership or retirement. The amount of Membership Service Credit
7 that may be purchased by a Member will be equal to the actual active military duty by
8 the Member not to exceed five years and shall be credited upon the payment of the
9 required contributions as determined by the Administrator, provided that the
10 Membership Service to be so credited shall not be credited in any other retirement
11 system, except the national guard or any reserve component of the Armed Forces of the
12 United States. The required contributions shall be an amount equal to the annualized
13 Compensation rate the Member earned when he first entered membership in the
14 Retirement System, multiplied by the sum of the Member and the City of Charlotte
15 contribution rates in effect at the time when he first entered membership in the
16 Retirement System, increased by five percent (5%) compounded per annum from the
17 date of membership to the date of the payment of the required contributions and
18 multiplied by the number of years and days of Membership Service to be credited.
19 Membership Service Credit purchased pursuant to this section cannot be used to meet
20 the minimum service requirements for a nonduty disability retirement benefit or an early
21 service retirement benefit, but may be used to meet the minimum service requirements
22 for a service retirement benefit and to compute the amount of any retirement benefit.

23 (b) Local, State, and Federal Government Service. – Membership Service Credit
24 for prior public employment may be purchased upon completion of five years of
25 Membership Service Credit by any Member who was employed by any state,
26 governmental subdivision of any state, or the federal government prior to his current
27 employment with the Charlotte Fire Department. Such Membership Service Credit shall
28 be purchased by the Member before termination of membership or retirement. A
29 Member may purchase one year of Membership Service Credit for every two years of
30 prior government service. The maximum amount of Membership Service Credit that
31 may be purchased is five years. The purchased Membership Service Credit shall be
32 credited upon the payment of the required contributions, provided that the Membership
33 Service to be so credited shall not be credited in any other retirement system. The
34 required contributions shall be the full actuarial cost as determined by the System's
35 actuary. Membership Service Credit purchased pursuant to this section cannot be used
36 to meet the minimum service requirements for a nonduty disability retirement benefit or
37 an early service retirement benefit, but may be used to meet the minimum service
38 requirements for a service retirement benefit and to compute the amount of any
39 retirement benefit.

40 (c) Withdrawn Service. – Any Member who withdrew his contributions in
41 accordance with the provisions of this Act and who subsequently returns to service, may
42 upon completion of five years of Membership Service Credit, purchase the withdrawn
43 service. Such Membership Service Credit shall be purchased by the Member before
44 termination of membership or retirement. The maximum amount of Membership

1 Service Credit that may be purchased by a Member is equal to the prior years of service
2 with the Charlotte Fire Department and shall be credited upon the payment of the
3 required contributions, provided that the Membership Service Credit to be so credited
4 shall not be credited in any other retirement system. The required contributions shall be
5 the full actuarial cost as determined by the System's actuary. Membership Service
6 Credit purchased pursuant to this section cannot be used to meet the minimum service
7 requirements for a nonduty disability retirement benefit or an early service retirement,
8 but may be used to meet the minimum service requirements for a service retirement
9 benefit and to compute the amount of any retirement benefit."

10 **SECTION 3.** Section 13.1 of Chapter 926 of the 1947 Session Laws, as
11 rewritten by Section 1 of Chapter 830 of the 1991 Session Laws, as amended by
12 Chapter 171 of the 1995 Session Laws, Chapter 640 of the 1993 Session Laws, S.L.
13 1999-100, and S.L. 2001-22, reads as rewritten:

14 "Sec. 13.1. **Direct Rollover of Eligible Rollover Distributions.** (a) This Section
15 applies to distributions made on or after January 1, 1993. Notwithstanding any provision
16 of the plan to the contrary that would otherwise limit a distributee's election under this
17 Section, a distributee may elect, at the time and in the manner prescribed by the plan
18 administrator, to have any portion of an eligible rollover distribution paid directly to an
19 eligible retirement plan specified by the distributee in a direct rollover.

20 (b) Definitions.

- 21 (1) Eligible rollover distribution. An eligible rollover distribution is any
22 distribution of all or any portion of the balance to the credit of the
23 distributee, except that an eligible rollover distribution does not
24 include: any distribution that is one of a series of substantially equal
25 periodic payments (not less frequently than annually) made for the life
26 (or life expectancy) of the distributee or the joint lives (or joint life
27 expectancies) of the distributee and the distributee's designated
28 beneficiary, or for a specified period of 10 years or more; any
29 distribution to the extent such distribution is required under section
30 401(a)(9) of the Code; and any hardship distribution described in
31 section 401(k)(2)(B)(i)(IV); and the portion of any distribution that is
32 not includable in gross income (determined without regard to the
33 exclusion for net unrealized appreciation with respect to employer
34 securities)-section 401(k)(2)(B)(i)(IV). A portion of a distribution shall
35 not fail to be an eligible rollover distribution merely because a portion
36 consists of after-tax employee contributions that are not includible in
37 gross income. However, such portion may be transferred only to an
38 individual retirement account or annuity described in section 408(a) or
39 (b) of the Code, or to a qualified defined contribution plan described in
40 section 401(a) or 403(a) of the Code that agrees to separately account
41 for amounts so transferred, including separately accounting for the
42 portion of such distribution which is includible in gross income and
43 the portion of such distribution which is not so includible.

- 1 (2) Eligible retirement plan. An eligible retirement plan is an individual
2 retirement account described in section 408(a) of the Code, an
3 individual retirement annuity described in section 408(b) of the Code,
4 an annuity plan described in section 403(a) of the Code, or a qualified
5 trust described in section 401(a) of the Code, that accepts the
6 distributee's eligible rollover distribution. ~~However, in the case of an~~
7 ~~eligible rollover distribution to the surviving spouse, an eligible~~
8 ~~retirement plan is an individual retirement account or individual~~
9 ~~retirement annuity.~~ With respect to distributions made after December
10 31, 2001, an eligible retirement plan shall also mean (i) an annuity
11 contract described in section 403(b) of the Code and (ii) an eligible
12 plan under section 457(b) of the Code which is maintained by a state,
13 political subdivision of a state, or any agency or instrumentality of a
14 state or political subdivision of a state and which agrees to separately
15 account for amounts transferred into such plan from this plan. The
16 definition of eligible retirement plan shall also apply in the case of a
17 distribution to a surviving spouse, or to a spouse or former spouse who
18 is the alternate payee under a qualified domestic relations order, as
19 defined in section 414(p) of the Code.
- 20 (3) Distributee. A distributee includes an employee or former employee.
21 In addition, the employee's or former employee's surviving spouse and
22 the employee's or former employee's spouse or former spouse who is
23 the alternate payee under a qualified domestic relations order, as
24 defined in section 414(p) of the Code, are distributees with regard to
25 the interest of the spouse or former spouse.
- 26 (4) Direct rollover. A direct rollover is a payment by the plan to the
27 eligible retirement plan specified by the distributee."

28 **SECTION 4.** Chapter 926 of the 1947 Session Laws, as rewritten by Section
29 1 of Chapter 830 of the 1991 Session Laws, as amended by Chapter 171 of the 1995
30 Session Laws, Chapter 640 of the 1993 Session Laws, S.L. 1999-100, and S.L. 2001-22,
31 is amended by adding a new section to read:

32 **"Sec. 13.2. Acceptance of Rollovers and Transfers From Other Plans.**

33 (a) Effective January 1, 2002, and subject to the provisions of federal law, the
34 Retirement System may accept an eligible rollover distribution, as defined in Section
35 13.1, or a direct trustee-to-trustee transfer of funds from an eligible retirement plan, as
36 defined in Section 13.1, for the purchase of Membership Service Credit pursuant to
37 Section 7. The amount of the rollover distribution or trustee-to-trustee transfer accepted
38 by the Retirement System shall not exceed the cost of service to be purchased.

39 (b) In order to authorize the rollover or transfer of funds described in this section,
40 a Member shall provide or cause to be provided to the Retirement System information
41 sufficient for the Retirement System to reasonably conclude that the contribution is a
42 valid rollover or direct trustee-to-trustee transfer as permitted under federal tax law. If
43 the Retirement System later determines that a contribution was an invalid rollover or
44 trustee-to-trustee transfer or otherwise not permitted under federal tax law, the

1 Retirement System may take any action appropriate or required by the Internal Revenue
2 Code or regulations issued there under, including a return of the invalid contribution and
3 cancellation of any credit purchased with the returned amounts.

4 (c) The Retirement System shall construe and administer this section in a manner
5 such that the Retirement System plan will be considered a qualified plan under section
6 401(a) of the Internal Revenue Code."

7 **SECTION 5.** Section 51 of Chapter 926 of the 1947 Session Laws, as
8 rewritten by Section 1 of Chapter 830 of the 1991 Session Laws, as amended by
9 Chapter 171 of the 1995 Session Laws, Chapter 640 of the 1993 Session Laws, S.L.
10 1999-100, and S.L. 2001-22, reads as rewritten:

11 "Sec. 51. **Restrictions.** Notwithstanding any provision of this act to the contrary:

- 12 (1) No part of the funds contributed to the Retirement System, or the
13 income thereon, may be used for, or diverted to, purposes other than
14 for the exclusive benefit of the Participants of the Retirement System
15 as authorized by the provisions of this act, provided that in the event of
16 the termination of the Retirement System, the City shall receive any
17 surplus funds or assets after all liabilities of the Retirement System are
18 satisfied.
- 19 (2) Upon termination of the Retirement System or upon complete
20 discontinuance of contributions to the Retirement System, the rights of
21 all Participants of the Retirement System to benefits accrued to the
22 date of the termination or discontinuance, to the extent then funded,
23 are nonforfeitable.
- 24 (3) Forfeitures under the Retirement System may not be applied to
25 increase the benefits that any Participant would otherwise receive
26 under the Retirement System.
- 27 (4) Notwithstanding any provision of the Retirement System to the
28 contrary, the maximum annual benefit payable in the form of a straight
29 life annuity from the Retirement System on behalf of a Participant,
30 when combined with any benefits from another qualified benefit plan
31 maintained by the City, shall not exceed the amount permitted by
32 section 415 of the Internal Revenue Code.
- 33 (5) Any benefit payable to a Participant pursuant to Section 4 of this act
34 shall commence not later than the April 1 immediately following the
35 calendar year in which the Participant attains age 70 1/2 or, if later, the
36 April 1 immediately following the calendar year in which the
37 Participant terminates service. Additionally, the distribution of any
38 such benefit must satisfy the minimum distribution requirements set
39 forth in this paragraph and must be consistent with Treasury
40 Regulations, as of the required beginning date. The minimum
41 distribution for a calendar year equals the Participant's nonforfeitable
42 Accrued Benefit at the beginning of the year divided by the
43 Participant's life expectancy or, if applicable, the joint and last survivor
44 expectancy of the participant and his Designated Beneficiary. The

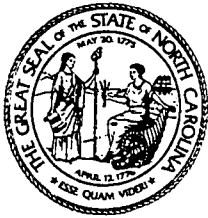
1 minimum distribution shall be computed by using the life expectancy
2 multiples under Treasury Regulation 1.72-9. The minimum
3 distribution for a calendar year subsequent to the first calendar year for
4 which a minimum distribution is required may be computed by
5 redetermining the applicable life expectancy. However, there shall be
6 no redetermination of the joint life and last survivor expectancy of the
7 Participant and a nonspouse Designated Beneficiary in a manner which
8 takes into account any adjustment to a life expectancy other than the
9 Participant's life expectancy. A distribution to the Participant in the
10 form of a life annuity, joint and survivor annuity, or an annuity over a
11 fixed period will satisfy the minimum distribution requirements of this
12 paragraph if the method of distribution provides non-increasing
13 payments or otherwise satisfies Treasury Regulations. If the
14 Participant dies after the payment of his benefit has commenced, the
15 death benefit provided by this act shall be paid over a period which
16 does not exceed the payment period which had commenced. If a
17 Participant dies prior to the time the payment of his benefit
18 commences, the death benefit provided by this act shall be paid over a
19 period not exceeding: (i) five years after the date of the Participant's
20 death; or (ii) if the Beneficiary is a Designated Beneficiary, over the
21 Designated Beneficiary's life or life expectancy. No payment of benefit
22 over a period described in (ii) shall be permitted, unless the payment of
23 such benefit to the Designated Beneficiary will commence no later
24 than one year after the date of the Participant's death, or, if later, and
25 the Designated Beneficiary is the Participant's surviving spouse, the
26 date the Participant would have attained age 70 1/2. The life
27 expectancy multiples under Treasury Regulation 1.72-9 shall be used
28 for purposes of applying this paragraph. The life expectancy of a
29 Participant's surviving spouse may be recalculated not more frequently
30 than annually, but the life expectancy of a nonspouse Designated
31 Beneficiary may not be recalculated after the commencement of
32 payment of benefits to the Designated Beneficiary. Any amount paid
33 to a Participant's child, which becomes payable to the Participant's
34 surviving spouse upon the child's attaining the age of majority, shall be
35 treated as paid to the Participant's surviving spouse for purposes of
36 applying this paragraph.

37 With respect to distributions under the Act made for calendar years
38 beginning on or after January 1, 2001, the minimum distribution
39 requirements of section 401(a)(9) of the Internal Revenue Code will be
40 applied in accordance with the regulations under section 401(a)(9) that
41 were proposed on January 17, 2001, notwithstanding any provision of
42 the Act to the contrary. These regulations shall be followed until the
43 end of the last calendar year beginning before the effective date of

final regulations under section 401(a)(9) or such other date as may be
specified in guidance published by the Internal Revenue Service."

SECTION 6. This act applies only to the City of Charlotte.

SECTION 7. This act becomes effective July 1, 2002.



HOUSE BILL 1666: Charlotte Firemen's Retirement Act.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 10, 2002
Version: First Edition

Introduced by: Rep. Alexander
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *This bill amends the law governing the Charlotte Firemen's Retirement System to conform to provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001, and to authorize the purchase of membership service credit for prior public employment and for withdrawn service.*

BILL ANALYSIS:

In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which included a broad array of changes in the tax laws governing qualified pension plans. These changes were intended to improve and simplify the ability of Americans to save for retirement.

This bill would conform the Charlotte Firemen's Retirement System to several of the changes made by federal law, including amending the definition of the term "compensation" to reflect that the maximum annual compensation used to determine all benefits under the plan would be set at \$200,000, effective January 1, 2002, and indexed for inflation thereafter.

The bill also allows rollovers to be made with after-tax contributions to qualified plans or IRAs. However, the plan must be set up to provide separate accounting for such contributions and the earnings on after-tax contributions. It also allows a surviving spouse or former spouse to rollover distributions from his or her deceased spouse's plan to his or her own plan.

The bill further authorizes the plan to accept rollovers and direct plan-to-plan transfers of contributions to be used for the purchase of membership service credit.

In addition to the changes that conform the Charlotte Firemen's Retirement System to EGTRRA, this bill also authorizes the purchase of membership service for prior public employment with a local, state, or the federal government, and for prior withdrawn service. Under current law, members of this system may only purchase military service. This bill would allow the purchase of the additional service credit at full actuarial cost, after a member has completed five years of membership service. Membership service credit purchased under this section, including military service, may only be used to meet the eligibility requirements for service retirement or to compute a benefit. It may not be used to meet the eligibility requirements for a nonduty disability retirement benefit or an early service retirement benefit.

This act would apply only to the City of Charlotte and would become effective July 1, 2002.

BACKGROUND:

Senate Bill 1292 (2nd Edition) amends the state tax laws to conform North Carolina's tax treatment of public and private pension benefits and distributions to EGTRRA. This bill has passed the Senate and has been referred to the House Finance Committee.



**North Carolina General Assembly
Legislative Services Office**

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(919) 733-2578

July 5, 2002

MEMORANDUM

TO: Representative Martha Alexander

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1666

Re: Charlotte Firemen's Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: House Bill 1666

SHORT TITLE: Charlotte Firefighter's Retirement Act

SPONSOR(S): Representative Martha Alexander

SYSTEM OR PROGRAM AFFECTED: Charlotte Firemen's Retirement System

FUNDS AFFECTED: City of Charlotte Funds

BILL SUMMARY: Makes changes to the system to conform to the Economic Growth and Tax Relief Reconciliation Act of 2001. The bill allows for the use of rollover contributions from other plans to make service purchases. It increases the level of compensation to \$200,000 effective January 1, 2002. The bill also allows for the purchase of state, local, federal and withdrawn service by the member paying the full actuarial cost that the purchase will put upon the System.

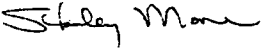
EFFECTIVE DATE: July 1, 2002

ESTIMATED IMPACT ON CITY OF CHARLOTTE: Both the System's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost would be negligible and would have no material impact.

ASSUMPTIONS AND METHODOLOGY: 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, 2001, actuarial valuation of the system. The data included 853 active members with a payroll of \$38.1 million, 389 retired members in receipt of annual pensions totaling \$12.8 million and market value of assets of \$239.9 million. Significant actuarial assumptions used include (a) an investment return rate of 7.75%, (b) the UP 1984 Mortality Table for deaths after retirement, (c) salary increases ranging from 4.75% to 7.75% per year for active members, and (d) rates of separation from active service based on experience. The actuarial cost method used was the entry age normal cost method. 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 Consultants Inc.
General Assembly Actuary - Hartman & Associates, LLC

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: James D. Johnson 

DATE: July 1, 2002

**BUCK
CONSULTANTS®**

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339 6946

July 5, 2002

Ms. Barbara J. Avar
Administrator
Charlotte Firefighters' Retirement System
Charlotte National Building
128 East Fourth St., Suite 205
Charlotte, NC 28202

House Bill 1666

Dear Barbara:

We have reviewed the provisions of House Bill 1666, which affects the Charlotte Firemen's Retirement Systems.

This legislation appears to amend the Act to conform with all applicable federal laws including GUST and EGTRRA. Specifically, this legislation appears to amend the Plan to increase the compensation taken into account in determining all benefits under 401(a)(17) of the IRC to \$200,000 on an after January 1, 2002. This legislation also appears to amend the Act relating to the direct rollover of eligible rollover distributions to change the definition of an eligible rollover distribution and an eligible retirement plan.

In addition, this legislation appears to amend the Act to allow the purchase of up to five years of membership service credit for prior local, state and federal government service, and for previous withdrawn service, after the completion of five years of membership service credit. The purchase must be made at full actuarial cost and the service cannot be used to meet the minimum service requirements for a nonduty disability retirement benefit or an early service retirement benefit, but may be used to meet the minimum service requirements for a service retirement benefit and to compute the amount of any retirement benefit. The purchase of this service may be made through rollover contributions or direct transfer of funds from an eligible retirement plan.

The proposed amendments do not create any additional liability to the System.

If you have any questions, please call me at (770) 916-4113.

Sincerely,



Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

Copy to: Stanley Moore - Fiscal Research

P:\Charlotte Firefighters\2002\Correspondence\Senate Bill 1591.doc
10/11/04-0001 REPLY 109

Buck Consultants, Inc.

770/955-2488 Fax 770/933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 26, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: House Bill 1666: An Act to Amend the Law Establishing the
Charlotte Firemen's Retirement System

Dear Mr. Moore:

This bill amends various sections of Chapter 926 of the 1947 Session Laws, as amended, to make various changes to the Charlotte Firemen's Retirement System. These changes include:

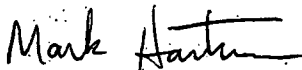
- increasing the compensation limit to the new Internal Revenue Code limitation of \$200,000;
- allowing purchase of membership service credit for prior government service, at the full actuarial cost;
- allowing purchase of membership service credit for withdrawn service, at the full actuarial cost;
- conforming the definition of eligible rollover distribution and the acceptance of rollovers from other plans to the Internal Revenue guidelines; and
- conforming minimum distribution requirements to the Internal Revenue guidelines.

This act becomes effective July 1, 2002.

These changes are not expected to have a material financial impact on the plan.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj

AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**Wednesday, July 17, 2002
Room 415 Legislative Office Building
10:00 A.M.**

OPENING REMARKS

**Representative Dan Barefoot, Presiding Chair
Pensions and Retirement Committee**

AGENDA ITEMS

**HB 1657 DURHAM FIREMEN'S RETIREMENT
Representative Mickey Michaux, Jr., Sponsor**

**SB 1232 FIRE AND RESCUE AMENDMENT
Senator John Kerr, Sponsor**

**SB 1238 WITHDRAWN RETIREMENT SERVICE
Senator Walter Dalton, Sponsor**

**SB 1429 RETIREMENT SYSTEM CONFORMING CHANGES
Senator Oscar Harris, Sponsor**

ADJOURNMENT

HOUSE PENSIONS AND RETIREMENT COMMITTEE

July 17, 2002

Minutes

The House Committee on Pensions and Retirement met on Wednesday, July 17, 2002 in Room 415 of the Legislative Office Building at 10:00 A.M. The following members were present: Representatives Barefoot and Cox; Co-Chairs; Representative McCombs, Vice-Chair; and Representatives Barbee, Easterling, Oldham, Rogers, Shubert, Starnes, Tolson, G. Wilson, and Yongue. Stanley Moore, Fiscal Research, Theresa Matula and Karen Cochrane-Brown, Staff Counselors were in attendance. A Visitor Registration list is attached and made part of these minutes.

Representative Barefoot called the meeting to order and introduced the Pages serving the Committee: Jeff Farmer of Mecklenburg County, sponsored by Speaker Black; Jonathan Hannah of Cumberland County, sponsored by Representative Warner; Alex Brewington, of Brunswick County, sponsored by Representative Wright; and Matt Hoina, of Wake County sponsored by Representative Weiss.

The following bills were considered:

Representative Michaux was recognized to explain **House Bill 1657-A BILL TO BE ENTITLED AN ACT TO AMEND THE PROVISIONS OF THE DURHAM FIREMEN'S SUPPLEMENTAL RETIREMENT SYSTEM.**

Representative Michaux offered an amendment and explained that it was only for a grammatical change that it could be a uniformed fireman or a retired fireman that serves on the board.

Representative Cox moved the amendment be adopted. The motion carried.

Representative Barbee moved to roll the amendment into a committee substitute, that it be given a favorable report and that the original bill be given an unfavorable report. The motion carried.

A copy of the bill, fiscal note, bill summary, and amendment are attached and made part of these minutes.

The next order of business was **SB 1232-A BILL TO BE ENTITLED AN ACT TO ALLOW MEMBERS OF THE NORTH CAROLINA FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND WITH AT LEAST TEN YEARS OF SERVICE TO CONTINUE AS MEMBERS AFTER THE TAKEOVER OF A VOLUNTEER DEPARTMENT OF A CITY OR COUNTY.** Senator Kerr, bill sponsor, explained the bill.

Representative Shubert offered an amendment and moved for its adoption. Motion carried.

Representative Howard, who had researched the amendment, was recognized to explain the amendment. She explained that over the last four or five years many of the small fire departments are not able to keep up with all of the paper work and requirements that they need to have in order to comply with their re-certifications with the Department of Insurance. Many of the small fire departments via the County Commissioners Association or the Leagues of Cities are allocating a small amount of dollars to each volunteer fire department so they can hire one or more persons that come to do all the hose testing, truck testing, and certification requirements that are necessary. We found that inadvertently they fell under the wage and hour law with the North Carolina Department of Labor, and this amendment simply takes care of this situation. She also pointed out that it has nothing to do with safety.

Representative Young inquired if the committee should get a handle on the price tag of the bill.

Stanley Moore, Fiscal Research, responded that no one knows how many units are going to be replaced or displaced.

Representative Starnes asked how many volunteer fire departments had been shut down because of annexation during the past two or three years.

Mr. Ed Regan, of the North Carolina Association of County Commissioners, replied that they do not have any data at the present but could easily get some and provide to Senator Forrester and Representative Starnes. He added that from the numbers of the last few years, we could make some projections looking at volunteer fire departments that are within one mile of existing city limits.

Representative Tolson spoke in support of the bill.

Representative Young spoke in support of the bill but noted that we will have to address the insignificant amount of money we are talking about.

Responding to Representative Shubert's question of the cost to the state, Stanley Moore, Fiscal Research, stated the state makes a contribution to the system equal to \$180 per year per fireman, and if 1000 of them are displaced and closed up, the state is going to continue to make that \$180 if they have 10 years. So, yes, there is a cost.

Representative Shubert then inquired, "And if they are annexed are we going to make that contribution"?

Stanley Moore, Fiscal Research, pointed out we are probably going to make it on two people then because they are going to hire professional, full-time people the state's going to be making contributions on, and we're going to make it on someone that's not doing anything. There is a cost if the state continues to pay contributions on an ex-fireman or ex-rescue worker that's no longer rendering any volunteer service.

Representative Barefoot stated that if some fiscal analysis is forthcoming to show the impact, or if there is any impact, then obviously it can be re-referred out of Appropriations and go straight to the House Floor.

A discussion followed, and Mrs. Theresa Matula, staff counsel, responded to several questions.

Representative Shubert moved to roll the amendment into a committee substitute, that the committee substitute be given a favorable report, and the original bill given an unfavorable report and the committee substitute bill be referred to committee on Appropriations; motion carried. A copy of the bill, actuarial note, bill summary and amendment are attached and made part of these minutes.

The next bill considered was **Senate Bill 1238-A BILL TO BE ENTITLED AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM AND TO CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO PURCHASE WITHDRAWN SERVICE.**

Staff offered a technical amendment to the title. Representative McCombs, Vice Chair, moved for the amendment to be adopted. The amendment was adopted.

Representative Barefoot explained that the amendment changes the title to reflect that the bill calls for an increase to appropriate to the Retirement Systems Division for eight positions for two years to be paid out of the fund.

Senator Dalton, bill sponsor, was recognized to explain Senate Bill 1238. He pointed out that the bill mirrors the bill that was passed last year for state employees. It allows the local government employees with 5 years or more of service to purchase their withdrawn service by paying the amount they withdrew plus 6.5% interest compounded annually from the date they withdrew. A copy of the bill, actuarial note, bill summary, and the amendment are attached and made part of these minutes.


Representative Tolson moved that the amendment be rolled into a committee substitute and be given a favorable report, unfavorable as to the original bill and be re-referred to Committee on Appropriations; motion carried

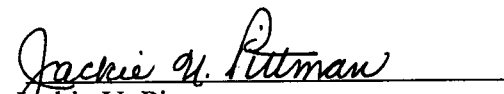
Senator Harris was recognized to explain the next bill, **Senate Bill 1429- A BILL TO BE ENTITLED AN ACT TO MAKE CHANGES IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM TO CONFORM WITH THE PROVISIONS OF THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001.** He stated it does affect all four retirement systems and also the local government system. Basically it makes the changes to the four major retirement systems to conform to the Economic Gross Tax Relief Act of 2001. A copy of the bill, actuarial note, and bill summary are attached and made part of these minutes.

Representative Young moved to give a favorable report to Senate Bill 1429. The motion carried.

The meeting was adjourned at 10:35 A.M.

Respectfully submitted,


Representative Dan Barefoot
Chair Presiding


Jackie U. Pittman
Committee Assistant

Attachments:

Visitor Registration Sheet

HB 1657, Actuarial Note, Bill Summary, Amendment

Committee Report, Proposed Committee Substitute

SB 1232, Actuarial Note, Bill Summary,

Amendment, Committee Report, Proposed Committee Substitute

SB 1238, Fiscal Note, Bill Summary, Amendment, Committee Report

SB 1429, Fiscal Note, Bill Summary, Committee Report

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

JULY 17, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Kay Barefoot	wife of Representative Barefoot, chair
Margaret McElroy	Intern
Larry Presnell	N.C. Retired School Personnel
Adelly Myfford	The Capitol Group
Katherine Miller	NCASA
Letitia Withrow	NC State Watch
David Anders	PFFPAK
Tim BRADLEY	NC DEPT OF INSURANCE
Courtney Enlow	Intern
Claire Flye	Intern

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

JULY 17, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Ed Regan	N.C. Assoc. of County Commissioners
Frank Lewis	OSBM
Gordon A. Joyner	NCAK KEMS PO Box 1914 Goldsboro NC
Kim Hibbard	NCLM
Kim R. Leland	NC DOL
Brenda Jackson	NC DOL
Henry Sasser	NC DOL
Ethelene Davis	EC
C. Coles	BPMHL
Joanne Scherer	Dept. of State Treasurer - Retirement
Wm. David Williamson	Retirement

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

JULY 17, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Robert Bone	Bone & Assoc - NC Farm Bureau
Elizabeth Dalton	"
Paul Miller	N.C. State Business Assoc.
Leigh Hammond	NC Ret. Gov't Emp. Assn
Kim Hibbard	NCLM
Jan Ramgopal	#1 CTA
Jim Blackburn	NC ASS'N County Comm'r's
E. C. Dawson	NC Ret. Sch Personnel
Debbie Perkins	AOC
Tim Bryan	B&T State 401(k) Sucs
John Suggs	SBE

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

JULY 17, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME _____

FIRM OR AGENCY AND ADDRESS

Richard O'Brien

PFFDNC

BOBBY RIDDLE

PFFPNC

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

H

1

HOUSE BILL 1657

Short Title: Durham Firemen's Retirement.

(Local)

Sponsors: Representatives Michaux; and Luebke.

Referred to: Pensions and Retirement.

June 13, 2002

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PROVISIONS OF THE DURHAM FIREMEN'S
SUPPLEMENTAL RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. Subsection (a) of Section 2 of Chapter 576 of the 1951 Session
Laws reads as rewritten:

"(a) Two members of said board of trustees shall be chosen as follows: One member from the uniformed membership of the Durham Fire Department and one member from the uniformed membership of the Durham Fire Department or may be chosen from the roster of retired uniformed members of the Durham Fire Department and shall be elected by a majority vote of the uniformed members of the Fire Department of the City of Durham; one of said members shall hold office for a period of one year, and the other member so appointed shall hold office for a period of two years; thereafter, each of said two members chosen ~~from~~ by the uniformed members of the Durham Fire Department shall be appointed for a term of office consisting of a period of two years each."

SECTION 2. Subsection (f) of Section 2 of Chapter 576 of the 1951 Session
Laws reads as rewritten:

"(f) Compensation of Trustees. The members of the Board of Trustees of the Durham Firemen's Supplemental Retirement System shall serve without compensation, except the Treasurer of the Board, but they shall be reimbursed for all necessary expenses incurred through service upon said board. The Treasurer of the Board will be compensated at a reasonable amount determined by the Board of Trustees of the Durham Firemen's Supplemental Retirement System."

SECTION 3. Subsection (q) of Section 2 of Chapter 576 of the 1951 Session
Laws is repealed.

SECTION 4. Chapter 576 of the 1951 Session Laws is amended by adding a new section to read:

1 "Sec. 4.4. All eligible retirees shall submit application to the Durham Firemen's
2 Supplemental Retirement System for them to receive supplemental benefits no later
3 than the 10th of the month of his or her retirement date from the North Carolina Local
4 Governmental Employees' Retirement System. Should he or she fail to file application
5 on time, he or she will lose his or her monthly retirement compensation until the month
6 in which the application is filed properly. Any retiree who has not complied with this
7 procedure will be given three months from date of the ratification of this amendment to
8 file application and, if this is not complied with, he or she will not receive retroactive
9 retirement compensation. Their date of retirement with the supplemental system will
10 start only with the 10th of the month in which they file application."

11 **SECTION 5.** Section 1 of Chapter 577 of the 1951 Session Laws reads as
12 rewritten:

13 **"Section 1.** G.S. 118-7 is here amended by adding at the end of said Section a
14 proviso which shall read as follows:

15 'Provided, that the board of trustees duly appointed under ~~§118-6, General Statutes~~
16 ~~of North Carolina, G.S. 58-84-30~~ shall be required to pay over to the Board of Trustees
17 of the Durham Firemen's Supplemental Retirement System on ~~July 1st~~ September 1 of
18 each year all sums entrusted to said trustees in excess of twenty thousand dollars
19 (\$20,000).'"

20 **SECTION 6.** This act applies only to the City of Durham.

21 **SECTION 7.** This act is effective when it becomes law.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

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16 W. Jones Street
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Bill Drafting Division
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Fiscal Research Division
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(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

July 16, 2002

MEMORANDUM

TO: Representative Mickey Michaux

FROM: Stanley Moore 
Fiscal Research Division

SUBJECT: Actuarial/Fiscal Note on House Bill 1657

Re: Durham Firemen's Supplemental Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial/fiscal note on the above subject as prepared by the General Assembly's Consulting Actuary and this Division.

cc: Co-Chairmen, House Committee on Pensions & Retirement
House Principal Clerk

Attachment(s):
Actuarial/Fiscal Note, House Bill 1657, July 15, 2002



**North Carolina General Assembly
Legislative Services Office**

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July 15, 2002

Representative Mickey Michaux
North Carolina House of Representative
Raleigh, North Carolina 27601

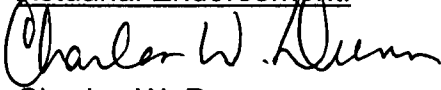
Dear Representative Michaux:

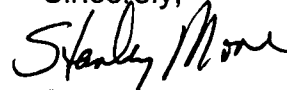
In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, we hereby submit an Actuarial/Fiscal Note on the following: House Bill 1657 Durham Firemen's Supplemental Retirement System. The present law provides that a fireman who retires from the Local Governmental Employees' Retirement System is entitled to receive a benefit of \$100 per month (\$1,200 annually) from the Durham Firemen's Supplemental Retirement System. The System is financed by the transfer of all funds in excess of \$20,000 from the City of Durham Firemen's Relief Fund.

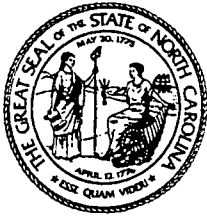
This bill makes the following changes: (1) makes membership changes to the board of trustees which can include retired firemen, (2) provides compensation to the Treasurer of the Board, (3) requires active members to submit an application by 10th day of the month that they are retiring from the Local System, and (4) changes the date of transfer of funds from the Local Relief Fund to the Supplemental Retirement System from July 1 of each year to September 1.

A reliable estimate of the financial and actuarial effects of the foregoing proposal is as follows: Since the total amount of benefits payable from the System each year is limited to the amount of its assets, the System is supported on a pay-as-you-go basis. The proposed changes do not change any benefits and should not affect the amount of funds available for retirement benefits, except the amount of compensation paid to the Treasurer.

Actuarial Endorsement:


Charles W. Dunn
Consulting Actuary
Raleigh, North Carolina

Sincerely,

Stanley Moore
Fiscal Analyst
Fiscal Research Division



HOUSE BILL 1657: Durham Firemen's Retirement.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 17, 2002
Version: First Edition

Introduced by: Rep. Michaux
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

House bill 1657 amends the law governing the Durham Firemen's Supplemental Retirement System to allow for the election of a retired fireman to the Board of Trustees and to authorize the Treasurer of the Board to be compensated. The bill also adds a provision requiring that members apply for supplemental benefits within a limited period after retirement from the Local Governmental Employees' Retirement System or risk loss of retroactive benefits.

CURRENT LAW:

The Durham Firemen's Supplemental Retirement System was created in 1951. The System is administered by a Board of Trustees, which is responsible for providing supplemental benefits to eligible retirees of the Durham Fire Department in accordance with the Act. Currently, the law authorizes the election of two members of the Fire Department to the Board of Trustees. Neither member may be a retiree receiving benefits from the System.

BILL ANALYSIS:

This bill amends the provision relating to the membership of the Board of Trustees to allow for the election of a retired member of the Durham Fire Department. It also repeals a provision prohibiting Board members from applying to receive benefits from the System.

Section 2 of the bill authorizes the Treasurer of the Board to be compensated at a reasonable amount to be determined by the Board of Trustees.

Section 4 adds a new provision to the law requiring members to apply for supplemental benefits by the tenth day of the month in which retirement from the Local Governmental Employees' Retirement System becomes effective. Benefits will only be paid prospectively from the date of application and a member who delays filing an application will lose benefits to which he or she otherwise might have been entitled. Current retirees will be given three months from the effective date of this act to file an application or risk loss of retroactive benefits.

Finally, the bill also amends a 1951 Session law, which directs the Board of Trustees of the Firemen's Relief Fund to make required payments to the Board of the Durham Firemen's Supplemental Retirement System on July 1st of each year. This bill changes the date from July 1st to September 1st.

This act applies only to the City of Durham and would become effective when it becomes law.



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
House Bill 1657

H1657-ARO-56 [v.1]

AMENDMENT NO. _____
(to be filled in by
Principal Clerk)

Page 1 of 1

Date _____, 2002

Comm. Sub. [NO]
Amends Title [NO]
First Edition

Representative

- 1 moves to amend the bill on page 1, lines 9-11, by rewriting the lines to read:
2
3 "member either from the uniformed membership of the Durham Fire Department or
4 from the roster of retired uniformed members of the Durham Fire Department; and both
5 members shall be elected by a majority vote of the uniformed members of the Durham
6 Fire".

SIGNED _____
Amendment Sponsor

SIGNED _____
Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____

Meredith

**2002 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

- ☐ Committee Substitute for
H.B. 1657 A BILL TO BE ENTITLED AN ACT TO AMEND THE PROVISIONS OF THE
DURHAM FIREMEN'S SUPPLEMENTAL RETIREMENT SYSTEM.
- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☒ With a favorable report as to the committee substitute bill, unfavorable as to the original bill.
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes
the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

5/13/02

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1657
PROPOSED COMMITTEE SUBSTITUTE H1657-PCS7394-RO-45

Short Title: Durham Firemen's Retirement.

(Local)

Sponsors:

Referred to:

June 13, 2002

A BILL TO BE ENTITLED

AN ACT TO AMEND THE PROVISIONS OF THE DURHAM FIREMEN'S
SUPPLEMENTAL RETIREMENT SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. Subsection (a) of Section 2 of Chapter 576 of the 1951 Session
Laws reads as rewritten:

"(a) Two members of said board of trustees shall be chosen as follows: One member from the uniformed membership of the Durham Fire Department and one member either from the uniformed membership of the Durham Fire Department or from the roster of retired uniformed members of the Durham Fire Department; and both members shall be elected by a majority vote of the uniformed members of the Fire Department of the City of Durham; one of said members shall hold office for a period of one year, and the other member so appointed shall hold office for a period of two years; thereafter, each of said two members chosen from by the uniformed members of the Durham Fire Department shall be appointed for a term of office consisting of a period of two years each."

SECTION 2. Subsection (f) of Section 2 of Chapter 576 of the 1951 Session
Laws reads as rewritten:

"(f) Compensation of Trustees. The members of the Board of Trustees of the Durham Firemen's Supplemental Retirement System shall serve without compensation, except the Treasurer of the Board, but they shall be reimbursed for all necessary expenses incurred through service upon said board. The Treasurer of the Board will be compensated at a reasonable amount determined by the Board of Trustees of the Durham Firemen's Supplemental Retirement System."

SECTION 3. Subsection (q) of Section 2 of Chapter 576 of the 1951 Session
Laws is repealed.

SECTION 4. Chapter 576 of the 1951 Session Laws is amended by adding a
new section to read:

1 "Sec. 4.4. All eligible retirees shall submit application to the Durham Firemen's
2 Supplemental Retirement System for them to receive supplemental benefits no later
3 than the 10th of the month of his or her retirement date from the North Carolina Local
4 Governmental Employees' Retirement System. Should he or she fail to file application
5 on time, he or she will lose his or her monthly retirement compensation until the month
6 in which the application is filed properly. Any retiree who has not complied with this
7 procedure will be given three months from date of the ratification of this amendment to
8 file application and, if this is not complied with, he or she will not receive retroactive
9 retirement compensation. Their date of retirement with the supplemental system will
10 start only with the 10th of the month in which they file application."

11 **SECTION 5.** Section 1 of Chapter 577 of the 1951 Session Laws reads as
12 rewritten:

13 **"Section 1.** G.S. 118-7 is here amended by adding at the end of said Section a
14 proviso which shall read as follows:

15 'Provided, that the board of trustees duly appointed under ~~§118-6, General Statutes~~
16 ~~of North Carolina, G.S. 58-84-30~~ shall be required to pay over to the Board of Trustees
17 of the Durham Firemen's Supplemental Retirement System on ~~July 1st~~ September 1 of
18 each year all sums entrusted to said trustees in excess of twenty thousand dollars
19 (\$20,000).'"

20 **SECTION 6.** This act applies only to the City of Durham.

21 **SECTION 7.** This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

1

SENATE BILL 1232

Short Title: Fire and Rescue Amendment.

(Public)

Sponsors: Senators Kerr; Albertson, Ballantine, Bingham, Carpenter, Carter, Cunningham, Dannelly, Forrester, Foxx, Garrou, Harris, Hartsell, Hoyle, Lee, Lucas, Martin of Pitt, Metcalf, Purcell, Reeves, Robinson, Soles, Swindell, Thomas, and Wellons.

Referred to: Pensions & Retirement and Aging.

June 6, 2002

A BILL TO BE ENTITLED
AN ACT TO ALLOW MEMBERS OF THE NORTH CAROLINA FIREMEN'S AND
RESCUE SQUAD WORKERS' PENSION FUND WITH AT LEAST TEN YEARS
OF SERVICE TO CONTINUE AS MEMBERS AFTER THE TAKEOVER OF A
VOLUNTEER DEPARTMENT BY A CITY OR COUNTY.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 58-86-55 reads as rewritten:

"§ 58-86-55. Monthly pensions upon retirement.

Any member who has served 20 years as an "eligible fireman" or "eligible rescue squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S. 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly pension from this fund. The monthly pension shall be in the amount of one hundred fifty-one dollars (\$151.00) per month. Any retired fireman receiving a pension shall, effective July 1, 2000, receive a pension of one hundred fifty-one dollars (\$151.00) per month.

Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a pension hereunder until the member's official duties as a fireman or rescue squad worker for which the member is paid compensation shall have been terminated and the member shall have retired as such according to standards or rules fixed by the board of trustees.

A member who is totally and permanently disabled while in the discharge of the member's official duties as a result of bodily injuries sustained or as a result of extreme exercise or extreme activity experienced in the course and scope of those official duties and who leaves the fire or rescue squad service because of this disability shall be

1 entitled to be paid from the fund a monthly benefit in an amount of one hundred
2 fifty-one dollars (\$151.00) per month beginning the first month after the member's
3 fifty-fifth birthday. All applications for disability are subject to the approval of the
4 board who may appoint physicians to examine and evaluate the disabled member prior
5 to approval of the application, and annually thereafter. Any disabled member shall not
6 be required to make the monthly payment of ten dollars (\$10.00) as required by G.S.
7 58-86-35 and G.S. 58-86-40.

8 A member who is totally and permanently disabled for any cause, other than line of
9 duty, who leaves the fire or rescue squad service because of this disability and who has
10 at least 10 years of service with the pension fund, may be permitted to continue making
11 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
12 contributions for a total of 240 months. The member shall upon attaining the age of 55
13 years be entitled to receive a pension as provided by this section. All applications for
14 disability are subject to the approval of the board who may appoint physicians to
15 examine and evaluate the disabled member prior to approval of the application and
16 annually thereafter.

17 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
18 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
19 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
20 of the General Statutes, or whose volunteer department is taken over by a city or county,
21 and because of such annexation or takeover is unable to perform as a fireman or rescue
22 squad worker of any status, and if the member has at least 10 years of service with the
23 pension fund, may be permitted to continue making a monthly contribution of ten
24 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
25 months. The member upon attaining the age of 55 years and completion of such
26 contributions shall be entitled to receive a pension as provided by this section. Any
27 application to make monthly contributions under this section shall be subject to a
28 finding of eligibility by the Board of Trustees upon application of the member.

29 The pensions provided shall be in addition to all other pensions or benefits under any
30 other statutes of the State of North Carolina or the United States, notwithstanding any
31 exclusionary provisions of other pensions or retirement systems provided by law."

32 **SECTION 2.** This act is effective when it becomes law and applies to
33 members of the Firemen's and Rescue Squad Workers' Pension Fund with at least 10
34 years of service on or after January 1, 2002.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
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Terrence D. Sullivan, Director
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

June 25, 2002

MEMORANDUM

TO: Senator Kerr

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note Senate 1232

Re: Continue membership

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Senate Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note. Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Senate Bill 1232

SHORT TITLE: Firemen and Rescue Workers Pension Fund

SPONSOR(S): Senator Kerr

SYSTEM OR PROGRAM AFFECTED: Firemen's and Rescue Squad Worker's Pension Fund

FUNDS AFFECTED: General Fund

BILL SUMMARY: Allows present members of the Firemen's and Rescue Squad Workers' Pension Fund with ten or more years of service to continue membership by making contributions of \$10 per month in the event that the volunteer department is taken over by a city or county.

EFFECTIVE DATE: January 1, 2002

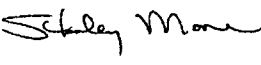
ESTIMATED IMPACT ON STATE: Buck Consultants estimates the cost to be a loss of saving that would otherwise occur. The General Assembly's actuary, Hartman & Associates, estimates the cost to be the normal cost (\$152) per year for each impacted member and this is not expected to have a material financial impact on the Pension Fund.

ASSUMPTIONS AND METHODOLOGY: Firemen's and Rescue Squad Workers' Pension Fund.

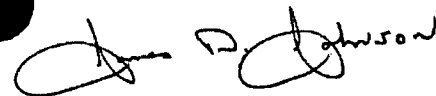
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the June 30, 2001, actuarial valuation of the fund. The data included 30,514 active members and 8,093 retired members in receipt of annual pensions totaling \$14.7 million. 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: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

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: James D. Johnson



DATE: June 24, 2002

BUCK CONSULTANTS®

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 17, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1388

Re: Senate Bill 1232

Dear Michael:

We have received your letter of June 10 regarding Senate Bill 1232 which affects the North Carolina Firemen's and Rescue Squad Workers' Pension Fund.

This legislation appears to allow a member with ten (10) or more years of service with the pension fund to continue making monthly contributions to the fund until the member has made contributions for a total of 240 months in the event a volunteer department is taken over by a city or county provided the member is unable to perform as a fireman or rescue squad worker because of such takeover. The statutes currently allow members to continue contributions under similar circumstances when a department is annexed by a city or when a member's residence is annexed by a city. Thus, this legislation appears to expand the current statutes to also allow such due to takeovers by a city or county.

The effect of this legislation is a loss of savings that would otherwise occur.

As a technical observance, this bill contains no funding provision.

If you have any questions, please call me at (770) 916-4113.

Sincerely,

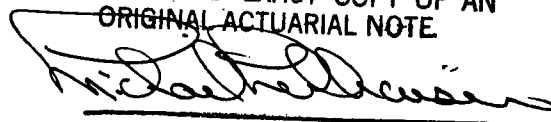


Edward A. Macdonald
Principal, Consulting Actuary

EAM:cj

P:\North Carolina Fire & Rescue\2002\Documents\Correspondence\SB 1232.doc

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 12, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Bill 1232: An Act to Allow Members of the FRSW Fund to
Continue After the Takeover by a City or County

Dear Mr. Moore:

This bill amends G.S. 58-86-55 to allow members of the North Carolina Firemen's and Rescue Squad Workers' (FRSW) Pension Fund with at least ten years of service to continue as members after the takeover of a volunteer department by a city or county. Currently, this continuation provision is only provided to members whose residence is annexed or whose department is closed because of an annexation by a city. Members whose department is taken over would lose coverage.

This bill would allow the affected members to continue contributing the monthly contribution until the member has contributed for a total of 240 months. Upon attaining age 55 and completing such contributions, the member would be eligible to receive a pension provided by the fund. This act is effective when it becomes law and applies to FRSW members with at least ten years of service on or after January 1, 2002.

Under this bill the plan's normal cost would continue for the affected members. The total cost would be the normal cost rate of approximately \$152 multiplied by the number of impacted members. This is not expected to have a material financial impact on the FRSW plan.

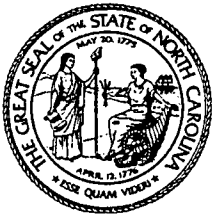
If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



SENATE BILL 1232: Increase Fire and Rescue Pension

BILL ANALYSIS

Committee: House Pensions, Retirement &
Date: July 17, 2002
Version: 1st Edition

Introduced by: Senator Kerr
Summary by: Theresa Matula
Committee Staff

SUMMARY: *In the event that a volunteer department is taken over by a city or county, Senate Bill 1232 amends the law to permit members with at least 10 years of service in the North Carolina Firemen's and Rescue Squad Workers' Pension Fund to continue making monthly contributions.*

BILL ANALYSIS:

Chapter 58, Article 86 of the General Statutes establishes and outlines the provisions of the North Carolina Firemen's and Rescue Squad Workers' Pension Fund. Senate Bill 1232 amends G.S. 58-86-55 to permit a member with at least 10 years of service, whose volunteer department is taken over by a city or county and due to the takeover are no longer able to perform as a fireman or rescue squad worker, to continue making a monthly contribution of ten dollars (\$10) to the fund for a total of 240 months.

Currently, under G.S. 58-86-55 a *fireman* with at least 10 years of service, whose residence is annexed by a city or whose department is closed by a city because of annexation, and due to the annexation is unable to perform as a fireman, may continue making a monthly contribution of ten dollars (\$10) to the fund until the member has made contributions for a total of 240 months. Senate Bill 1232 also amends G.S. 58-86-55 to extend this opportunity to *rescue squad workers*.

This act is effective when it becomes law and applies to members of the Firemen's and Rescue Squad Workers' Pension Fund with at least 10 years of service on or after January 1, 2002.



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
Senate Bill 1232

AMENDMENT NO. _____
(to be filled in by
Principal Clerk)

S1232-AST-118 [v.1]

Page 2 of 2

1 least 10 years of service on or after January 1, 2002, and Section 2 applying to hours
2 worked on or after July 31, 2002.".
3

4

SIGNED _____
Amendment Sponsor

SIGNED _____
Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____

5

SIGNED _____
Amendment Sponsor

SIGNED _____
Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
Senate Bill 1232

AMENDMENT NO. _____
(to be filled in by
Principal Clerk)

S1232-AST-118 [v.1]

Page 1 of 2

Date _____, 2002

Comm. Sub. [NO]
Amends Title [YES]
First Edition

Representative

1 moves to amend the bill on page 1, line 5, by rewriting the line to read:

2 "VOLUNTEER DEPARTMENT BY A CITY OR A COUNTY; AND TO EXEMPT
3 VOLUNTEER FIREFIGHTERS, EMERGENCY MEDICAL SERVICES
4 PERSONNEL AND RESCUE SQUAD WORKERS FROM OVERTIME AND
5 MINIMUM WAGE LAWS."

6
7 and further moves to amend the bill on page 2, lines 32-34, by rewriting the lines to
8 read:

9 **SECTION 2.** G.S. 95-25.14 is amended by adding a new subsection to read:

10 "(b1) The provisions of G.S. 95-25.3 (Minimum Wage) and G.S. 95-25.4
11 (Overtime), and the provisions of G.S. 95-25.15(b) (Record Keeping) as they relate to
12 the exemptions provided for in this subsection, do not apply to any of the following:

13 (1) Hours worked as a bona fide volunteer firefighter in an incorporated
14 nonprofit volunteer or community fire department.

15 (2) Hours worked as a bona fide volunteer rescue and emergency medical
16 services personnel in an incorporated nonprofit volunteer or
17 community fire department or an incorporated nonprofit rescue squad.

18 Hours worked in accordance with this subsection shall not be considered
19 hours worked for purposes of G.S. 95-25.3 or G.S. 95-25.4."

20 **SECTION 3** This act is effective when it becomes law, with Section 1
21 applying to members of the Firemen's and Rescue Squad Workers' Pension Fund with at

minutes

2002 COMMITTEE REPORT HOUSE OF REPRESENTATIVES

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

- ☐ Committee Substitute for
S.B. 1232 A BILL TO BE ENTITLED AN ACT TO ALLOW MEMBERS OF THE NORTH CAROLINA FIREMEN'S AND RESCUE SQUAD WORKERS' PENSION FUND WITH AT LEAST TEN YEARS OF SERVICE TO CONTINUE AS MEMBERS AFTER THE TAKEOVER OF A VOLUNTEER DEPARTMENT BY A CITY OR COUNTY.
- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.
- ☒ With a favorable report as to the House committee substitute bill, ☒ which changes the title, unfavorable as to the original bill, and recommendation that the committee substitute bill be re-referred to the Committee on APPROPRIATIONS.
- ☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

5/13/02

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

D

SENATE BILL 1232
PROPOSED HOUSE COMMITTEE SUBSTITUTE S1232-PCS6883-SH-27

Short Title: Fire and Rescue Amendment.

(Public)

Sponsors:

Referred to:

June 6, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO ALLOW MEMBERS OF THE NORTH CAROLINA FIREMEN'S AND
3 RESCUE SQUAD WORKERS' PENSION FUND WITH AT LEAST TEN YEARS
4 OF SERVICE TO CONTINUE AS MEMBERS AFTER THE TAKEOVER OF A
5 VOLUNTEER DEPARTMENT BY A CITY OR COUNTY; AND TO EXEMPT
6 VOLUNTEER FIREFIGHTERS, EMERGENCY MEDICAL SERVICES
7 PERSONNEL AND RESCUE SQUAD WORKERS FROM OVERTIME AND
8 MINIMUM WAGE LAWS.

9 The General Assembly of North Carolina enacts:

10 SECTION 1. G.S. 58-86-55 reads as rewritten:

11 "§ 58-86-55. Monthly pensions upon retirement.

12 Any member who has served 20 years as an "eligible fireman" or "eligible rescue
13 squad worker" in the State of North Carolina, as provided in G.S. 58-86-25 and G.S.
14 58-86-30, and who has attained the age of 55 years is entitled to be paid a monthly
15 pension from this fund. The monthly pension shall be in the amount of one hundred
16 fifty-one dollars (\$151.00) per month. Any retired fireman receiving a pension shall,
17 effective July 1, 2000, receive a pension of one hundred fifty-one dollars (\$151.00) per
18 month.

19 Members shall pay ten dollars (\$10.00) per month as required by G.S. 58-86-35 and
20 G.S. 58-86-40 for a period of no longer than 20 years. No "eligible rescue squad
21 member" shall receive a pension prior to July 1, 1983. No member shall be entitled to a
22 pension hereunder until the member's official duties as a fireman or rescue squad
23 worker for which the member is paid compensation shall have been terminated and the
24 member shall have retired as such according to standards or rules fixed by the board of
25 trustees.

26 A member who is totally and permanently disabled while in the discharge of the
27 member's official duties as a result of bodily injuries sustained or as a result of extreme
28 exercise or extreme activity experienced in the course and scope of those official duties

1 and who leaves the fire or rescue squad service because of this disability shall be
2 entitled to be paid from the fund a monthly benefit in an amount of one hundred
3 fifty-one dollars (\$151.00) per month beginning the first month after the member's
4 fifty-fifth birthday. All applications for disability are subject to the approval of the
5 board who may appoint physicians to examine and evaluate the disabled member prior
6 to approval of the application, and annually thereafter. Any disabled member shall not
7 be required to make the monthly payment of ten dollars (\$10.00) as required by G.S.
8 58-86-35 and G.S. 58-86-40.

9 A member who is totally and permanently disabled for any cause, other than line of
10 duty, who leaves the fire or rescue squad service because of this disability and who has
11 at least 10 years of service with the pension fund, may be permitted to continue making
12 a monthly contribution of ten dollars (\$10.00) to the fund until the member has made
13 contributions for a total of 240 months. The member shall upon attaining the age of 55
14 years be entitled to receive a pension as provided by this section. All applications for
15 disability are subject to the approval of the board who may appoint physicians to
16 examine and evaluate the disabled member prior to approval of the application and
17 annually thereafter.

18 A member who, because his residence is annexed by a city under Part 2 or Part 3 of
19 Article 4 of Chapter 160A of the General Statutes, or whose department is closed
20 because of an annexation by a city under Part 2 or Part 3 of Article 4 of Chapter 160A
21 of the General Statutes, or whose volunteer department is taken over by a city or county,
22 and because of such annexation or takeover is unable to perform as a fireman or rescue
23 squad worker of any status, and if the member has at least 10 years of service with the
24 pension fund, may be permitted to continue making a monthly contribution of ten
25 dollars (\$10.00) to the fund until the member has made contributions for a total of 240
26 months. The member upon attaining the age of 55 years and completion of such
27 contributions shall be entitled to receive a pension as provided by this section. Any
28 application to make monthly contributions under this section shall be subject to a
29 finding of eligibility by the Board of Trustees upon application of the member.

30 The pensions provided shall be in addition to all other pensions or benefits under any
31 other statutes of the State of North Carolina or the United States, notwithstanding any
32 exclusionary provisions of other pensions or retirement systems provided by law."

33 **SECTION 2.** G.S. 95-25.14 is amended by adding a new subsection to read:

34 "(b1) The provisions of G.S. 95-25.3 (Minimum Wage) and G.S. 95-25.4
35 (Overtime), and the provisions of G.S. 95-25.15(b) (Record Keeping) as they relate to
36 the exemptions provided for in this subsection, do not apply to any of the following:

37 (1) Hours worked as a bona fide volunteer firefighter in an incorporated,
38 nonprofit volunteer or community fire department.

39 (2) Hours worked as a bona fide volunteer rescue and emergency medical
40 services personnel in an incorporated, nonprofit volunteer or
41 community fire department, or an incorporated, nonprofit rescue
42 squad.

43 Hours worked in accordance with this subsection shall not be considered hours
44 worked for purposes of G.S. 95-25.3 or G.S. 95-25.4."

1 **SECTION 3.** This act is effective when it becomes law, with Section 1
2 applying to members of the Firemen's and Rescue Squad Workers' Pension Fund with at
3 least 10 years of service on or after January 1, 2002, and Section 2 applying to hours
4 worked on or after July 31, 2002.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 1238
Pensions & Retirement and Aging Committee Substitute Adopted 7/2/02

Short Title: Withdrawn Retirement Service.

(Public)

Sponsors:

Referred to:

June 6, 2002

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM AND TO
CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO
PURCHASE WITHDRAWN SERVICE.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-26(i) reads as rewritten:

"(i) Notwithstanding any other provision of this Chapter, any person who withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or 135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of ~~10~~ five years of prior and current membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with ~~sufficient interest added thereto to cover one half of the cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of withdrawal(s), provided that he left service prior to July 1, 1975.~~ interest compounded annually at the rate of six and one-half percent (6.5%) for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expense of handling which shall be determined by the Board of Trustees, and receive credit for the service forfeited at time of withdrawal(s). ~~Any person who leaves service after June 30, 1975, and who withdraws his contributions in accordance with G.S. 128-27(f) or 135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement System and who subsequently returns to service may, upon completion of 10 years of prior and current membership service, repay in a total lump sum any and all of the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such additional credit plus a fee to cover expense of handling which shall be determined by the Board of Trustees and receive credit for the service forfeited at time of~~

1 withdrawal(s). These provisions shall apply equally to retired members who had
2 attained ~~10~~ five years of prior and current membership service prior to retirement. Cost
3 as used in this subsection shall mean the amount of money required to provide
4 additional retirement benefits based on service credit allowed at the time any adjustment
5 to the service credit of a member is made. The retirement allowance of a retired member
6 who restores service under this subsection shall be increased the month following the
7 month payment is received. The increase in the retirement allowance shall be the
8 difference between the initial retirement allowance, under any optional allowance
9 elected at the time of retirement, and the amount of the retirement allowance, under any
10 optional allowance elected at the time of retirement, to which the retired member would
11 have been entitled had the service not been previously forfeited, adjusted by any
12 increases in the retirement accrual rate occurring between the member's date of
13 retirement and the date of payment. The increase in the retirement allowance shall not
14 include any adjustment for cost-of-living increases granted since the date of retirement."

15 **SECTION 2.** G.S. 128-26(k) reads as rewritten:

16 "(k) Notwithstanding any language to the contrary of any provision of this section,
17 or of any repealed provision of this section that was repealed with the inchoate and
18 accrued rights preserved, all repayments and purchases of service credits, allowed under
19 the provisions of this section or of any repealed provision of this section that was
20 repealed with inchoate and accrued rights preserved, must be made within three years
21 after the member first becomes eligible to make such repayments and purchases. Any
22 member who does not repay or purchase service credits within said three years after first
23 eligibility to make such repayments and purchases may, under the same conditions as
24 are otherwise required, repay or purchase service credits provided that the repayment or
25 purchase equals the full cost of the service credits calculated on the basis of the
26 assumptions used for purchases of the actuarial valuation of the System's liabilities and
27 shall take into account the additional retirement allowance arising on account of such
28 additional service credit commencing at the earliest age at which such member could
29 retire on an unreduced retirement allowance as determined by the Board of Trustees
30 upon the advice of the consulting actuary. Notwithstanding the foregoing provisions of
31 this subsection that provide for the purchase of service credits, the terms "full cost",
32 "full liability", and "full actuarial cost" include assumed annual post-retirement
33 allowance increases, as determined by the Board of Trustees, from the earliest age at
34 which a member could retire on an unreduced service allowance. Notwithstanding the
35 foregoing, on and after January 1, 2003, the provisions of this subsection shall not apply
36 to the repayment of contributions withdrawn pursuant to subsection (i) of this section."

37 **SECTION 3.** G.S. 128-26(n) is repealed.

38 **SECTION 4.** G.S. 135-4(k) reads as rewritten:

39 "(k) Notwithstanding any other provision of this Chapter, any person who
40 withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S.
41 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement
42 System and who subsequently returns to service may, upon completion of five years of
43 membership service, repay in a total lump sum any and all of the accumulated
44 contributions previously withdrawn with interest compounded annually at the rate of six

1 and one-half percent (6.5%) for each calendar year from the year of withdrawal to the
2 year of repayment plus a fee to cover expense of handling which shall be determined by
3 the Board of Trustees, and receive credit for the service forfeited at time of withdrawal.
4 These provisions shall apply equally to retired members who had attained five years of
5 membership service prior to retirement. ~~The retirement benefit shall be increased the~~
6 ~~month following the receipt of payment. The retirement benefit shall not include any~~
7 ~~benefit as a result of retirement adjustments or cost-of-living increases granted since the~~
8 ~~date of retirement. The retirement benefit will be calculated based in the accrual rate at~~
9 ~~the time of purchase. The retirement allowance of a retired member who restores service~~
10 under this subsection shall be increased the month following the month payment is
11 received. The increase in the retirement allowance shall be the difference between the
12 initial retirement allowance, under any optional allowance elected at the time of
13 retirement, and the amount of the retirement allowance, under any optional allowance
14 elected at the time of retirement, to which the retired member would have been entitled
15 had the service not been previously forfeited, adjusted by any increases in the retirement
16 accrual rate occurring between the member's date of retirement and the date of payment.
17 The increase in the retirement allowance shall not include any adjustment for
18 cost-of-living increases granted since the date of retirement.

19 Notwithstanding any provision to the contrary, a law enforcement officer who was
20 transferred from the Law Enforcement Officers' Retirement System to this Retirement
21 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
22 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
23 or G.S. 135-5(f) for non-law enforcement service and who has five years or more of
24 membership service standing to his credit may repay in a total lump sum the
25 accumulated contributions previously withdrawn with interest compounded annually at
26 the rate of six and one-half percent (6.5%) for each calendar year from the year of
27 withdrawal to the year of repayment plus a fee to cover expense of handling which shall
28 be determined by the Board of Trustees, and receive credit for the service forfeited at
29 time of withdrawal. ~~The retirement benefit shall be increased the month following the~~
30 ~~receipt of payment. The retirement benefit shall not include any benefit as a result of~~
31 ~~retirement adjustments or cost-of-living increases granted since the date of retirement.~~
32 ~~The retirement benefit will be calculated based in the accrual rate at the time of~~
33 ~~purchase-withdrawal(s). The retirement allowance of a retired member who restores~~
34 service under this subsection shall be increased the month following the month payment
35 is received. The increase in the retirement allowance shall be the difference between the
36 initial retirement allowance, under any optional allowance elected at the time of
37 retirement, and the amount of the retirement allowance, under any optional allowance
38 elected at the time of retirement, to which the retired member would have been entitled
39 had the service not been previously forfeited, adjusted by any increases in the retirement
40 accrual rate occurring between the member's date of retirement and the date of payment.
41 The increase in the retirement allowance shall not include any adjustment for
42 cost-of-living increases granted since the date of retirement."

43 **SECTION 4.1.** The appropriation to the Department of State Treasurer,
44 Retirement Systems Division is increased in the amount of two hundred forty-seven

1 thousand seven hundred thirteen dollars (\$247,713) to fund eight two-year time-limited
2 positions to implement the provisions of this act.

3 **SECTION 5.** This act becomes effective January 1, 2003.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

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Administrative Division
Room 9, Legislative Building
16 W. Jones Street
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
Dennis W. McCarty, Director
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-6834

Terrence D. Sullivan, Director
Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

June 29, 2002

MEMORANDUM

TO: Senators Dalton, Gulley & Harris

FROM: Stanley Moore 
Fiscal Research Division

SUBJECT: Actuarial Note Senate Bill 1238

Re: Allows for the purchase of withdrawn service in the Local Governmental Employees' Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Senate Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note. Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Senate Bill 1238

SHORT TITLE: Withdrawn Retirement Service

SPONSOR(S): Senators Dalton, Gulley & Harris

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System and Teachers' & State Employees' Retirement System

FUNDS AFFECTED: Local Funds

BILL SUMMARY: The bill allows any member of the Local Governmental Employees' Retirement System with five or more years of service to purchase the withdrawn service by paying the amount withdrawn plus 6 1/2% interest compounded annually from year of withdrawal to year of repayment. The bill allows the purchase by repealing the existing law, which allows members to purchase withdrawn service after they have returned and worked for 10 years. It also repeals the requirement that the purchase of withdrawn service must be made within three years and repeals the "full cost" method of calculating withdrawn service for member who withdrew after July 1, 1974, and repeals the provision for the "full actuarial cost" for members beyond the three year window and those with more than five years and less than ten years. The bill makes some technical clarifying changes to the Teachers' & State Employees' Retirement System but no cost to these changes.

EFFECTIVE DATE: January 1, 2003

ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Buck Consultants estimates the annual cost to be \$9 million based on an estimated 900 members making the purchase. They also estimate the cost will be approximately \$10 million per year for every additional 1,000 members who purchase service. These cost estimates are based on experience of Teachers' and State Employees' Retirement System since similar legislation was enacted during the 2001 Session.

Hartman & Associates estimates the annual cost to be \$8.9 million based on experience of Teachers' and State Employees' Retirement System since similar legislation was enacted during the 2001 Session.

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

ASSUMPTIONS AND METHODOLOGY:

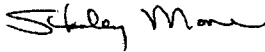
Local Governmental Employees' Retirement System

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, 2000, actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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: (919) 733-4910

PREPARED BY: Stanley Moore



APPROVED BY: James D. Johnson



DATE: June 28, 2002

BUCK CONSULTANTS[®]

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1388

Senate Bill 1238

Dear Mr. Williamson:

We have received your letter of June 10 regarding Senate Bill 1238, which affects the Local Governmental Employees' Retirement System and the Teachers' and State Employees' Retirement System.

This proposed legislation appears to allow active and retired members to purchase withdrawn service under the Local Governmental Employees' Retirement System after completing 5 years of prior and current membership service. In order to receive credit for the service forfeited at the time of withdrawal, the member would be required to repay any and all of the accumulated contributions previously withdrawn with 6-1/2% interest compounded annually for each calendar year from the year of withdrawal to the year of repayment plus a fee to cover expenses. This legislation further appears to amend Section 128-26(k) to remove the requirement that the purchase or repayment be made within 3 years after the member first becomes eligible. This legislation further appears to repeal Section 128-26(h) that provides for members with 5 years of membership service, to purchase credit under the full actuarial cost method. Lastly, this legislation appears to amend the provisions of G.S. 135-4(k) affecting the Teachers' and State Employees' Retirement System relative to the recalculation of a retirement allowance of a retired member purchasing withdrawn service credits under that amended statute.

Based on information we received from the Retirement System for members who purchased service under similar provisions of the Teachers' and Employees' Retirement System, we estimate that approximately 900 members of the Local Governmental Employees' Retirement System will purchase withdrawn service under these proposed provisions. The estimated annual cost of this legislation is \$9,000,000. For each additional 1,000 members who purchase service due to this legislation, the cost to the System would be approximately \$10,000,000 annually.

In the event the bill is amended to provide for a refund to members who have previously purchased withdrawn service at "full cost" or full actuarial cost, the cost to the Local Governmental Retirement System could be substantial, since thousands of members and beneficiaries have purchased service credits under these provisions.

Mr. Michael L. Williamson
June 19, 2002
Page 2

The impact of this legislation on the Teachers' and Employees' Retirement System would be negligible.

As a technical observation, this legislation includes no funding provision. There would also be an additional administrative burden and expense imposed upon the System due to anticipated increases in work volumes.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

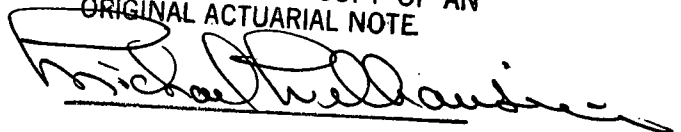


Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

P:\North Carolina Local Govt\2002\Documents\Correspondence\Senate Bill 1238.doc

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 26, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Bill 1238: An Act to Allow the Purchase of Withdrawn Service in the LGERS and to Correct the Calculation of Benefits for Members of the TSERS Who Purchase Withdrawn Service

Dear Mr. Moore:

This bill amends G.S. 128-26(i) and G.S. 128-26(k) to modify the provisions for purchasing credits for service for which the employee has previously withdrawn his contributions in the Local Governmental Employees' Retirement System (LGERS). Currently, an employee who terminates his service, withdraws his contributions and subsequently returns to service may purchase the prior service credits upon completion of ten years of membership service. For members who left service prior to July 1, 1975, the repayment amount equals the accumulated contributions previously withdrawn with sufficient interest added thereto to cover one-half the cost of providing such credit. For members who left service after June 30, 1975, the repayment amount equals the accumulated contributions previously withdrawn with sufficient interest added thereto to cover the full cost of providing such credit. If repayment is not made within three years after the member becomes eligible to purchase the prior service credits, he is then required to repay the full actuarial cost for the service credits.

Under this bill, a member would be eligible to purchase prior service credits for withdrawn service after five years of membership. The repayment amount would equal the accumulated contributions previously withdrawn plus interest at a rate of 6.5% per year since the date of withdrawal for all employees. The increase in the repayment amount for purchases made more than three years after becoming eligible would not apply for this purpose. This act becomes effective January 1, 2003.

This bill also amends G.S. 135-4(k) to correct the calculation of a

Mr. Stanley Moore
June 26, 2002

Page 2

retired member who purchases service credits in the Teachers' and State Employees' Retirement System (TSERS). This bill provides that the retirement allowance based on purchased service will be adjusted by any increases in the accrual rate occurring between the member's date of retirement and the date of repayment.

The effect of this change in the LGERS would be a decrease in the amount paid by certain members for purchase of prior service credits and an increase in the number of members eligible to make such purchases. The incidence rate for purchases is expected to increase due to:

- a reduction in the repayment cost,
- elimination of the required repayment window, and
- expansion in the availability by reducing eligibility to five years.

The estimated cost of this bill is dependent on the number of members who exercise the option to purchase withdrawn service. You provided data showing the number of LGERS members with withdrawn service and data showing the number of TSERS members who purchased service following a similar change in that system last year. Based on this information, we have estimated approximately 800 members will purchase service credits in 2003. The financial impact in the LGERS is an estimated annual cost of \$8,860,000. If the number of members exercising this option increases or decreases in future years, the cost is expected to change proportionately.

This estimate is based on the most recent actuarial valuation prepared as of December 31, 2000, and information provided by you regarding the number and amount of purchases of prior service credits in the TSERS during 2001, and 6,874 eligible members in the LGERS.

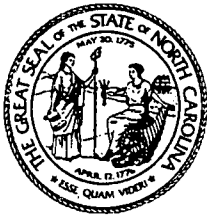
If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



SENATE BILL 1238: Withdrawn Retirement Service

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 17, 2002
Version: 2nd Edition

Introduced by: Senator Dalton
Summary by: Theresa Matula
Committee Staff

SUMMARY: *Senate Bill 1238 amends the conditions for the purchase of withdrawn service in the LGERS, clarifies withdrawn service repayment provisions for retired TSERS members and appropriates \$247,713 for eight two-year time-limited positions.*

BILL ANALYSIS:

Local Governmental Employees' Retirement System (LGERS)

Section 1. SB 1238 amends G.S. 128-26(i) to allow any person who withdrew contributions under specified statutory provisions from the LGERS, or the Teachers' and State Employees' Retirement System (TSERS), or the Law Enforcement Officers' Retirement System, and returns to service, upon completion of five years (*previously 10 years*) of *prior¹ and current membership service*, to repay in a total lump sum all accumulated contributions previously withdrawn with 6.5% interest compounded annually for each calendar year from the year of withdrawal to the year of repayment plus a fee. This amended provision applies equally to retired members who had attained five years (*previously 10 years*) of prior and current membership service prior to retirement. The increase in the retirement allowance² will be adjusted by any increases in the retirement accrual rate occurring between the member's date of retirement and the date of payment, but will not include any adjustment for cost-of-living increases granted since retirement. Provisions for leaving service prior to and after July 1, 1975 are repealed.

Section 2. G.S. 128-26(k) currently requires that all repayments and purchases of service credits be made within three years after the member becomes eligible or the member must repay or purchase service credits at the full actuarial cost. SB 1238 amends G.S. 128-26(k) to specify that on and after January 1, 2003, the provisions of this subsection shall not apply to the repayment of contributions withdrawn pursuant to G.S. 126-26(i).

Section 3. SB 1238 repeals G.S. 128-26(n) which currently allows any person who withdrew contributions under specified statutory provisions from the LGERS, the TSERS, or the Law Enforcement Officers' Retirement System, and returns to service may, upon completion of five years of *membership service*, purchase the withdrawn service by making a lump sum payment at full actuarial cost. The repeal of G.S. 128-26(n) is a conforming change to the amendments in Section 1.

Teachers' and State Employees' Retirement System (TSERS)

Section 4. SB 1238 amends G.S. 135-4(k) to clarify that for retired members who repay withdrawn contributions, the retirement allowance shall be increased the month following *the month* payment is received (*previously, increased the month following receipt of payment*). Additionally, it clarifies that the increase in the retirement allowance² will be adjusted by any increases in the retirement accrual rate occurring between the member's date of retirement and the date of payment, but will not include any adjustment for cost-of-living increases granted since retirement.

Continued on Back

¹ Under G.S. 128-21(17) "prior service" means the service of a member rendered before the date he becomes a member of the system, certified on his prior service certificate.

² The increase in the retirement allowance is the difference between the initial retirement allowance and the amount of the retirement allowance to which the retired member would have been entitled had the service not been previously forfeited.

SENATE BILL 1238

Page 2

Appropriation for Time-Limited Positions

Section 4.1. SB 1238 appropriates \$247,713 to fund 8 two-year time-limited positions to implement the provision of this act.

According to information supplied by the Retirement Systems Division, the 8 positions will be allocated as follows: 5 time-limited positions in the Benefits Section, 2 time-limited positions in the Records Section, 1 time-limited position in the Member Services Section.

Time-Limited Positions

Section 3, Pages 3-4 of the State Personnel Manual, defines a time-limited permanent position as an appointment that has a limited duration. It is distinguished from a temporary appointment by the longer length of time, and from a regular permanent appointment by its limited duration. Employees with a time-limited permanent appointment receive leave, total state service credit, retirement and health benefits; they are not eligible for severance pay and priority reemployment. If an employee is retained in a time-limited permanent position beyond three years, the employee shall be designated as having a permanent appointment.

Effective Date

Section 5. This act becomes effective January 1, 2003.



NORTH CAROLINA GENERAL ASSEMBLY
AMENDMENT
Senate Bill 1238

S1238-ASH-6 [v.1]

AMENDMENT NO. _____
(to be filled in by
Principal Clerk)

Page 1 of 1

Date July 17, 2002

Comm. Sub. [NO]
Amends Title [YES]
Second Edition

Representative

- 1 moves to amend the bill on page 1, lines 3-6
- 2 by rewriting those lines to read:
- 3 "LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, TO
- 4 CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE
- 5 TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO
- 6 PURCHASE WITHDRAWN SERVICE, AND TO INCREASE
- 7 APPROPRIATIONS TO THE RETIREMENT SYSTEMS DIVISION."

SIGNED Eugene M. Corns
Amendment Sponsor

SIGNED _____
Committee Chair if Senate Committee Amendment

ADOPTED _____ FAILED _____ TABLED _____

Merula

**2002 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot and Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☒ Committee Substitute for

S.B. 1238 A BILL TO BE ENTITLED AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM AND TO CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO PURCHASE WITHDRAWN SERVICE.

☐ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐ ☐.

☐ With a favorable report as to the committee substitute bill (#), ☐ which changes the title, unfavorable as to (the original bill) (Committee Substitute Bill #), (and recommendation that the committee substitute bill #) be re-referred to the Committee on .)

☒ With a favorable report as to House committee substitute bill, ☒ which changes the title, unfavorable as to Senate committee substitute bill and recommendation that the House committee substitute bill be referred to the Committee on APPROPRIATIONS.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

5/13/02

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

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D

SENATE BILL 1238

Pensions & Retirement and Aging Committee Substitute Adopted 7/2/02
PROPOSED HOUSE COMMITTEE SUBSTITUTE S1238-PCS4733-SH-28

Short Title: Withdrawn Retirement Service.

(Public)

Sponsors:

Referred to:

June 6, 2002

A BILL TO BE ENTITLED

AN ACT TO ALLOW THE PURCHASE OF WITHDRAWN SERVICE IN THE
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, TO
CORRECT THE CALCULATION OF BENEFITS FOR MEMBERS OF THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM WHO
PURCHASE WITHDRAWN SERVICE, AND TO INCREASE
APPROPRIATIONS TO THE RETIREMENT SYSTEMS DIVISION.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 128-26(i) reads as rewritten:

"(i) Notwithstanding any other provision of this Chapter, any person who
withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or
135-5(f) or the rules and regulations of the Law Enforcement Officers' Retirement
System and who subsequently returns to service may, upon completion of ~~10~~ five years
of prior and current membership service, repay in a total lump sum any and all of the
accumulated contributions previously withdrawn with ~~sufficient interest added thereto~~
~~to cover one half of the cost of providing such additional credit plus a fee to cover~~
~~expense of handling which shall be determined by the Board of Trustees and receive~~
~~credit for the service forfeited at time of withdrawal(s), provided that he left service~~
~~prior to July 1, 1975. interest compounded annually at the rate of six and one-half~~
~~percent (6.5%) for each calendar year from the year of withdrawal to the year of~~
~~repayment plus a fee to cover expense of handling which shall be determined by the~~
~~Board of Trustees, and receive credit for the service forfeited at time of withdrawal(s).~~
~~Any person who leaves service after June 30, 1975, and who withdraws his~~
~~contributions in accordance with G.S. 128-27(f) or 135-5(f) or the rules and regulations~~
~~of the Law Enforcement Officers' Retirement System and who subsequently returns to~~
~~service may, upon completion of 10 years of prior and current membership service,~~
~~repay in a total lump sum any and all of the accumulated contributions previously~~

1 ~~withdrawn with sufficient interest added thereto to cover the full cost of providing such~~
2 ~~additional credit plus a fee to cover expense of handling which shall be determined by~~
3 ~~the Board of Trustees and receive credit for the service forfeited at time of~~
4 ~~withdrawal(s). These provisions shall apply equally to retired members who had~~
5 ~~attained 10 five years of prior and current membership service prior to retirement. Cost~~
6 ~~as used in this subsection shall mean the amount of money required to provide~~
7 ~~additional retirement benefits based on service credit allowed at the time any adjustment~~
8 ~~to the service credit of a member is made. The retirement allowance of a retired member~~
9 ~~who restores service under this subsection shall be increased the month following the~~
10 ~~month payment is received. The increase in the retirement allowance shall be the~~
11 ~~difference between the initial retirement allowance, under any optional allowance~~
12 ~~elected at the time of retirement, and the amount of the retirement allowance, under any~~
13 ~~optional allowance elected at the time of retirement, to which the retired member would~~
14 ~~have been entitled had the service not been previously forfeited, adjusted by any~~
15 ~~increases in the retirement accrual rate occurring between the member's date of~~
16 ~~retirement and the date of payment. The increase in the retirement allowance shall not~~
17 ~~include any adjustment for cost-of-living increases granted since the date of retirement."~~

18 **SECTION 2.** G.S. 128-26(k) reads as rewritten:

19 "(k) Notwithstanding any language to the contrary of any provision of this section,
20 or of any repealed provision of this section that was repealed with the inchoate and
21 accrued rights preserved, all repayments and purchases of service credits, allowed under
22 the provisions of this section or of any repealed provision of this section that was
23 repealed with inchoate and accrued rights preserved, must be made within three years
24 after the member first becomes eligible to make such repayments and purchases. Any
25 member who does not repay or purchase service credits within said three years after first
26 eligibility to make such repayments and purchases may, under the same conditions as
27 are otherwise required, repay or purchase service credits provided that the repayment or
28 purchase equals the full cost of the service credits calculated on the basis of the
29 assumptions used for purchases of the actuarial valuation of the System's liabilities and
30 shall take into account the additional retirement allowance arising on account of such
31 additional service credit commencing at the earliest age at which such member could
32 retire on an unreduced retirement allowance as determined by the Board of Trustees
33 upon the advice of the consulting actuary. Notwithstanding the foregoing provisions of
34 this subsection that provide for the purchase of service credits, the terms "full cost",
35 "full liability", and "full actuarial cost" include assumed annual post-retirement
36 allowance increases, as determined by the Board of Trustees, from the earliest age at
37 which a member could retire on an unreduced service allowance. Notwithstanding the
38 foregoing, on and after January 1, 2003, the provisions of this subsection shall not apply
39 to the repayment of contributions withdrawn pursuant to subsection (i) of this section."

40 **SECTION 3.** G.S. 128-26(n) is repealed.

41 **SECTION 4.** G.S. 135-4(k) reads as rewritten:

42 "(k) Notwithstanding any other provision of this Chapter, any person who
43 withdrew his contributions in accordance with the provisions of G.S. 128-27(f) or G.S.
44 135-5(f) or the rules and regulations of the Law-Enforcement Officers' Retirement

1 System and who subsequently returns to service may, upon completion of five years of
2 membership service, repay in a total lump sum any and all of the accumulated
3 contributions previously withdrawn with interest compounded annually at the rate of six
4 and one-half percent (6.5%) for each calendar year from the year of withdrawal to the
5 year of repayment plus a fee to cover expense of handling which shall be determined by
6 the Board of Trustees, and receive credit for the service forfeited at time of withdrawal.
7 These provisions shall apply equally to retired members who had attained five years of
8 membership service prior to retirement. ~~The retirement benefit shall be increased the~~
9 ~~month following the receipt of payment. The retirement benefit shall not include any~~
10 ~~benefit as a result of retirement adjustments or cost of living increases granted since the~~
11 ~~date of retirement. The retirement benefit will be calculated based in the accrual rate at~~
12 ~~the time of purchase. The retirement allowance of a retired member who restores service~~
13 under this subsection shall be increased the month following the month payment is
14 received. The increase in the retirement allowance shall be the difference between the
15 initial retirement allowance, under any optional allowance elected at the time of
16 retirement, and the amount of the retirement allowance, under any optional allowance
17 elected at the time of retirement, to which the retired member would have been entitled
18 had the service not been previously forfeited, adjusted by any increases in the retirement
19 accrual rate occurring between the member's date of retirement and the date of payment.
20 The increase in the retirement allowance shall not include any adjustment for
21 cost-of-living increases granted since the date of retirement.

22 Notwithstanding any provision to the contrary, a law enforcement officer who was
23 transferred from the Law Enforcement Officers' Retirement System to this Retirement
24 System pursuant to Article 12C of Chapter 143 of the General Statutes and withdrew his
25 accumulated contributions prior to January 1, 1985, in accordance with G.S. 128-27(f)
26 or G.S. 135-5(f) for non-law enforcement service and who has five years or more of
27 membership service standing to his credit may repay in a total lump sum the
28 accumulated contributions previously withdrawn with interest compounded annually at
29 the rate of six and one-half percent (6.5%) for each calendar year from the year of
30 withdrawal to the year of repayment plus a fee to cover expense of handling which shall
31 be determined by the Board of Trustees, and receive credit for the service forfeited at
32 time of withdrawal. ~~The retirement benefit shall be increased the month following the~~
33 ~~receipt of payment. The retirement benefit shall not include any benefit as a result of~~
34 ~~retirement adjustments or cost of living increases granted since the date of retirement.~~
35 ~~The retirement benefit will be calculated based in the accrual rate at the time of~~
36 ~~purchase-withdrawal(s). The retirement allowance of a retired member who restores~~
37 service under this subsection shall be increased the month following the month payment
38 is received. The increase in the retirement allowance shall be the difference between the
39 initial retirement allowance, under any optional allowance elected at the time of
40 retirement, and the amount of the retirement allowance, under any optional allowance
41 elected at the time of retirement, to which the retired member would have been entitled
42 had the service not been previously forfeited, adjusted by any increases in the retirement
43 accrual rate occurring between the member's date of retirement and the date of payment.

1 The increase in the retirement allowance shall not include any adjustment for
2 cost-of-living increases granted since the date of retirement."

3 **SECTION 4.1.** The appropriation to the Department of State Treasurer,
4 Retirement Systems Division, is increased in the amount of two hundred forty-seven
5 thousand seven hundred thirteen dollars (\$247,713) to fund eight two-year time-limited
6 positions to implement the provisions of this act.

7 **SECTION 5.** This act becomes effective January 1, 2003.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 1429
Pensions & Retirement and Aging Committee Substitute Adopted 7/2/02

Short Title: Retirement System Conforming Changes.

(Public)

Sponsors:

Referred to:

June 13, 2002

A BILL TO BE ENTITLED
AN ACT TO MAKE CHANGES IN THE TEACHERS' AND STATE EMPLOYEES'
RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES'
RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND
THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM TO CONFORM
WITH THE PROVISIONS OF THE ECONOMIC GROWTH AND TAX RELIEF
RECONCILIATION ACT OF 2001.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 120-4.16 reads as rewritten:

"§ 120-4.16. Repayments and purchases.

(a) All repayments and purchases of service credit, allowed under this Article, shall be made within two years after the member first becomes eligible to make such repayments and purchases. All such repayments and purchases not made within two years after the member becomes eligible shall equal the full actuarial cost of the additional service credit as defined in G.S. 135-4(m).

(b) Purchase of Service Credits Through Rollover Contributions From Certain Other Plans. – Notwithstanding any other provision of this Article, and without regard to any limitations on contributions otherwise set forth in this Article, a member, who is eligible to restore or purchase membership or creditable service pursuant to the provisions of this Article, may purchase such service credits through rollover contributions to the Annuity Savings Fund from (i) an annuity contract described in Section 403(b) of the Internal Revenue Code, (ii) an eligible plan under Section 457(b) of the Internal Revenue Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state, (iii) an individual retirement account or annuity described in Section 408(a) or 408(b) of the Internal Revenue Code that is eligible to be rolled over and would otherwise be includible in gross income, or (iv) a qualified plan described in Section 401(a) or 403(a) of the Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not accept any amount as a rollover contribution unless such amount is eligible to

1 be rolled over to a qualified trust in accordance with applicable law and the member
2 provides evidence satisfactory to the Retirement System that such amount qualifies for
3 rollover treatment. Unless received by the Retirement System in the form of a direct
4 rollover, the rollover contribution must be paid to the Retirement System on or before
5 the 60th day after the date it was received by the member.

6 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
7 other provision of this Article, and without regard to any limitations on contributions
8 otherwise set forth in this Article, a member, who is eligible to restore or purchase
9 membership or creditable service pursuant to the provisions of this Article, may
10 purchase such service credits through a direct transfer to the Annuity Savings Fund of
11 funds from (i) an annuity contract described in Section 403(b) of the Internal Revenue
12 Code or (ii) an eligible plan under Section 457(b) of the Code which is maintained by a
13 state, political subdivision of a state, or any agency or instrumentality of a state or
14 political subdivision of a state.

15 (c) Purchase of Service Credits Through Plan-to-Plan Transfers. –
16 Notwithstanding any other provision of this Article, and without regard to any
17 limitations on contributions otherwise set forth in this Article, a member, who is eligible
18 to restore or purchase membership or creditable service pursuant to the provisions of
19 this Article, may purchase such service credits through a direct transfer to the Annuity
20 Savings Fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C
21 of North Carolina or (ii) any other defined contribution plan qualified under Section
22 401(a) of the Internal Revenue Code which is maintained by the State of North
23 Carolina, a political subdivision of a state, or any agency or instrumentality of a state or
24 political subdivision of a state."

25 **SECTION 2. G.S. 120-4.31 reads as rewritten:**

26 **"§ 120-4.31. Internal Revenue Code compliance.**

27 (a) Notwithstanding any other provisions of law to the contrary, compensation
28 for any calendar year after 1988 in which employee or employer contributions are made
29 and for which annual compensation is used for computing any benefit under this Article
30 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
31 determined by the Commissioner of Internal Revenue as the limitation for calendar
32 years after 1989; provided the imposition of the limitation shall not reduce a member's
33 benefit below the amount determined as of December 31, 1988.

34 Effective January 1, 1996, the annual compensation of a member taken into account
35 for determining all benefits provided under this Article shall not exceed one hundred
36 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
37 Internal Revenue Code and any regulations issued under the Code. However, with
38 respect to a person who became a member of the Retirement System prior to January 1,
39 1996, the imposition of this limitation on compensation shall not reduce the amount of
40 compensation which may be taken into account for determining the benefits of that
41 member under this Article below the amount of compensation which would have been
42 recognized under the provisions of this Article in effect on July 1, 1993.

43 Effective January 1, 2002, the annual compensation of a person, who became a
44 member of the Retirement System on or after January 1, 1996, taken into account for

1 determining all benefits accruing under this Article for any plan year after December 31,
2 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
3 otherwise set by the Internal Revenue Code or determined by the Commissioner of
4 Internal Revenue as the limitation for calendar years after 2002.

5 (b) Notwithstanding any other provisions of law to the contrary, the annual
6 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
7 required by Section 415(b) ~~and (e)~~ and with respect to calendar years commencing prior
8 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
9 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
10 member is a participant under any qualified defined contributions plan that is required
11 to be taken into account for the purposes of the limitation contained in Section 415 of
12 the Internal Revenue Code, the annual benefit payable under this Article shall be
13 reduced to the extent required by Section 415(e) prior to making any reduction under
14 the defined contribution plan provided by the employer. However, with respect to a
15 member who has benefits accrued under this Article but whose benefit had not
16 commenced as of December 31, 1999, the combined plan limitation contained in
17 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
18 calendar years commencing on or after January 1, 2000.

19 (c) On and after January 1, 1989, the retirement allowance of a member who has
20 terminated employment shall begin no later than the later of April 1 of the calendar year
21 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
22 calendar year following the calendar year in which the member terminates employment.

23 (d) This subsection applies to distributions made on or after January 1, 1993.
24 Notwithstanding any other provision of the Plan to the contrary that would otherwise
25 limit a distributee's election under this Article, a distributee may elect, at the time and in
26 the manner prescribed by the Plan administrator, to have any portion of an eligible
27 rollover distribution paid directly to an eligible retirement plan specified by the
28 distributee in a direct rollover. Provided, an eligible rollover distribution is any
29 distribution of all or any portion of the balance to the credit of the distributee, except
30 that an eligible rollover distribution does not include: any distribution that is one of a
31 series of substantially equal periodic payments (not less frequently than annually) made
32 for the life (or life expectancy) of the distributee or the joint lives (or joint life
33 expectancies) of the distributee and the distributee's designated beneficiary, or for a
34 specified period of 10 years or more; any distribution to the extent such distribution is
35 required under section 401(a)(9) of the Code; and the portion of any distribution that is
36 not includible in gross income (determined without regard to the exclusion for net
37 realized appreciation with respect to employer securities). Effective as of January 1,
38 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
39 fail to be an eligible rollover distribution merely because the portion consists of after-
40 tax employee contributions that are not includible in gross income. However, such
41 portion may be transferred only to an individual retirement account or annuity described
42 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
43 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
44 amounts so transferred, including separately accounting for the portion of such

1 distribution which is includible in gross income and the portion of such distribution
2 which is not so includible. Provided, an eligible retirement plan is an individual
3 retirement account described in section 408(a) of the Code, an individual retirement
4 annuity described in section 408(b) of the Code, an annuity plan described in section
5 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
6 accepts the distributee's eligible rollover distribution. However, in case of an eligible
7 rollover distribution to the surviving spouse, an eligible retirement plan is an individual
8 retirement account or an individual retirement annuity. Effective on and after January 1,
9 2002, an eligible retirement plan shall also mean an annuity contract described in
10 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
11 is maintained by a state, political subdivision of a state, or any agency or instrumentality
12 of a state or political subdivision of a state and which agrees to separately account for
13 amounts transferred into such plan from this Plan. The definition of eligible retirement
14 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
15 former spouse who is the alternate payee under a qualified domestic relations order, as
16 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
17 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
18 includes an employee or former employee. In addition, the employee's or former
19 employee's surviving spouse and the employee's or former employee's spouse or former
20 spouse who is the alternate payee under a qualified domestic relations order, as defined
21 in section 414(p) of the Code, or a court ordered equitable distribution of marital
22 property, as provided under G.S. 50-20, whichever may be applicable, are distributees
23 with regard to the interest of the spouse or former spouse. Provided further, a direct
24 rollover is a payment by the Plan to the eligible retirement plan specified by the
25 distributee."

26 **SECTION 3.** G.S.128-26 is amended by adding two new subsections to
27 read:

28 "(t) Purchase of Service Credits Through Rollover Contributions From Certain
29 Other Plans. – Notwithstanding any other provision of this Article, and without regard
30 to any limitations on contributions otherwise set forth in this Article, a member, who is
31 eligible to restore or purchase membership or creditable service pursuant to the
32 provisions of G.S. 128-26, may, subject to such rules and regulations established by the
33 Board of Trustees, purchase such service credits through rollover contributions to the
34 Annuity Savings Fund from (i) an annuity contract described in Section 403(b) of the
35 Internal Revenue Code, (ii) an eligible plan under Section 457(b) of the Internal
36 Revenue Code which is maintained by a state, political subdivision of a state, or any
37 agency or instrumentality of a state or political subdivision of a state, (iii) an individual
38 retirement account or annuity described in Section 408(a) or 408(b) of the Internal
39 Revenue Code that is eligible to be rolled over and would otherwise be includible in
40 gross income, or (iv) a qualified plan described in Section 401(a) or 403(a) of the
41 Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not
42 accept any amount as a rollover contribution unless such amount is eligible to be rolled
43 over to a qualified trust in accordance with applicable law and the member provides
44 evidence satisfactory to the Retirement System that such amount qualifies for rollover

1 treatment. Unless received by the Retirement System in the form of a direct rollover, the
2 rollover contribution must be paid to the Retirement System on or before the 60th day
3 after the date it was received by the member.

4 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
5 other provision of this Article, and without regard to any limitations on contributions
6 otherwise set forth in this Article, a member, who is eligible to restore or purchase
7 membership or creditable service pursuant to the provisions of G.S. 128-26, may,
8 subject to such rules and regulations established by the Board of Trustees, purchase
9 such service credits through a direct transfer to the Annuity Savings Fund of funds from
10 (i) an annuity contract described in Section 403(b) of the Internal Revenue Code or (ii)
11 an eligible plan under Section 457(b) of the Code which is maintained by a state,
12 political subdivision of a state, or any agency or instrumentality of a state or political
13 subdivision of a state.

14 (u) Purchase of Service Credits Through Plan-to-Plan Transfers. –
15 Notwithstanding any other provision of this Article, and without regard to any
16 limitations on contributions otherwise set forth in this Article, a member, who is eligible
17 to restore or purchase membership or creditable service pursuant to the provisions of
18 G.S. 128-26, may, subject to such rules and regulations established by the Board of
19 Trustees, purchase such service credits through a direct transfer to the Annuity Savings
20 Fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of North
21 Carolina or (ii) any other defined contribution plan qualified under Section 401(a) of the
22 Internal Revenue Code which is maintained by the State of North Carolina, a political
23 subdivision of a state, or any agency or instrumentality of a state or political subdivision
24 of a state."

25 **SECTION 4. G.S. 128-38.2 reads as rewritten:**

26 **"§ 128-38.2. Internal Revenue Code compliance.**

27 (a) Notwithstanding any other provisions of law to the contrary, compensation
28 for any calendar year after 1988 in which employee or employer contributions are made
29 and for which annual compensation is used for computing any benefit under this Article
30 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
31 determined by the Commissioner of Internal Revenue as the limitation for calendar
32 years after 1989; provided the imposition of the limitation shall not reduce a member's
33 benefit below the amount determined as of December 31, 1988.

34 Effective January 1, 1996, the annual compensation of a member taken into account
35 for determining all benefits provided under this Article shall not exceed one hundred
36 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
37 Internal Revenue Code and any regulations issued under the Code. However, with
38 respect to a person who became a member of the Retirement System prior to January 1,
39 1996, the imposition of this limitation on compensation shall not reduce the amount of
40 compensation which may be taken into account for determining the benefits of that
41 member under this Article below the amount of compensation which would have been
42 recognized under the provisions of this Article in effect on July 1, 1993.

43 Effective January 1, 2002, the annual compensation of a person, who became a
44 member of the Retirement System on or after January 1, 1996, taken into account for

1 determining all benefits accruing under this Article for any plan year after December 31,
2 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
3 otherwise set by the Internal Revenue Code or determined by the Commissioner of
4 Internal Revenue as the limitation for calendar years after 2002.

5 (b) Notwithstanding any other provisions of law to the contrary, the annual
6 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
7 required by Section 415(b) ~~and (e)~~ and with respect to calendar years commencing prior
8 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
9 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
10 member is a participant under any qualified defined contributions plan that is required
11 to be taken into account for the purposes of the limitation contained in Section 415 of
12 the Internal Revenue Code, the annual benefit payable under this Article shall be
13 reduced to the extent required by Section 415(e) prior to making any reduction under
14 the defined contribution plan provided by the employer. However, with respect to a
15 member who has benefits accrued under this Article but whose benefit had not
16 commenced as of December 31, 1999, the combined plan limitation contained in
17 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
18 calendar years commencing on or after January 1, 2000.

19 (c) On and after January 1, 1989, the retirement allowance of a member who has
20 terminated employment shall begin no later than the later of April 1 of the calendar year
21 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
22 calendar year following the calendar year in which the member terminates employment.

23 (d) This subsection applies to distributions made on or after January 1, 1993.
24 Notwithstanding any other provision of the Plan to the contrary that would otherwise
25 limit a distributee's election under this Article, a distributee may elect, at the time and in
26 the manner prescribed by the Plan administrator, to have any portion of an eligible
27 rollover distribution paid directly to an eligible retirement plan specified by the
28 distributee in a direct rollover. Provided, an eligible rollover distribution is any
29 distribution of all or any portion of the balance to the credit of the distributee, except
30 that an eligible rollover distribution does not include: any distribution that is one of a
31 series of substantially equal periodic payments (not less frequently than annually) made
32 for the life (or life expectancy) of the distributee or the joint lives (or joint life
33 expectancies) of the distributee and the distributee's designated beneficiary, or for a
34 specified period of 10 years or more; any distribution to the extent such distribution is
35 required under section 401(a)(9) of the Code; and the portion of any distribution that is
36 not includible in gross income (determined without regard to the exclusion for net
37 realized appreciation with respect to employer securities). Effective as of January 1,
38 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
39 fail to be an eligible rollover distribution merely because the portion consists of after-
40 tax employee contributions which are not includible in gross income. However, such
41 portion may be transferred only to an individual retirement account or annuity described
42 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
43 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
44 amounts so transferred, including separately accounting for the portion of such

1 distribution which is includible in gross income and the portion of such distribution
2 which is not so includible. Provided, an eligible retirement plan is an individual
3 retirement account described in section 408(a) of the Code, an individual retirement
4 annuity described in section 408(b) of the Code, an annuity plan described in section
5 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
6 accepts the distributee's eligible rollover distribution. However, in case of an eligible
7 rollover distribution to the surviving spouse, an eligible retirement plan is an individual
8 retirement account or an individual retirement annuity. Effective on and after January 1,
9 2002, an eligible retirement plan shall also mean an annuity contract described in
10 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
11 is maintained by a state, political subdivision of a state, or any agency or instrumentality
12 of a state or political subdivision of a state and which agrees to separately account for
13 amounts transferred into such plan from this Plan. The definition of eligible retirement
14 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
15 former spouse who is the alternate payee under a qualified domestic relations order, as
16 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
17 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
18 includes an employee or former employee. In addition, the employee's or former
19 employee's surviving spouse and the employee's or former employee's spouse or former
20 spouse who is the alternate payee under a qualified domestic relations order, as defined
21 in section 414(p) of the Code, or a court ordered equitable distribution of marital
22 property, as provided under G.S. 50-20, whichever may be applicable, are distributees
23 with regard to the interest of the spouse or former spouse. Provided further, a direct
24 rollover is a payment by the Plan to the eligible retirement plan specified by the
25 distributee."

26 **SECTION 5.** G.S. 135-4 is amended by adding two new subsections to read:

27 "(dd) Purchase of Service Credits Through Rollover Contributions From Certain
28 Other Plans. – Notwithstanding any other provision of this Article, and without regard
29 to any limitations on contributions otherwise set forth in this Article, a member, who is
30 eligible to restore or purchase membership or creditable service pursuant to the
31 provisions of G.S. 135-4, may, subject to such rules and regulations established by the
32 Board of Trustees, purchase such service credits through rollover contributions to the
33 Annuity Savings Fund from (i) an annuity contract described in Section 403(b) of the
34 Internal Revenue Code, (ii) an eligible plan under Section 457(b) of the Internal
35 Revenue Code which is maintained by a state, political subdivision of a state, or any
36 agency or instrumentality of a state or political subdivision of a state, (iii) an individual
37 retirement account or annuity described in Section 408(a) or 408(b) of the Internal
38 Revenue Code that is eligible to be rolled over and would otherwise be includible in
39 gross income, or (iv) a qualified plan described in Section 401(a) or 403(a) of the
40 Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not
41 accept any amount as a rollover contribution unless such amount is eligible to be rolled
42 over to a qualified trust in accordance with applicable law and the member provides
43 evidence satisfactory to the Retirement System that such amount qualifies for rollover
44 treatment. Unless received by the Retirement System in the form of a direct rollover, the

1 rollover contribution must be paid to the Retirement System on or before the 60th day
2 after the date it was received by the member.

3 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
4 other provision of this Article, and without regard to any limitations on contributions
5 otherwise set forth in this Article, a member, who is eligible to restore or purchase
6 membership or creditable service pursuant to the provisions of G.S. 135-4, may, subject
7 to such rules and regulations established by the Board of Trustees, purchase such
8 service credits through a direct transfer to the Annuity Savings Fund of funds from (i)
9 an annuity contract described in Section 403(b) of the Internal Revenue Code or (ii) an
10 eligible plan under Section 457(b) of the Code which is maintained by a state, political
11 subdivision of a state, or any agency or instrumentality of a state or political subdivision
12 of a state.

13 (ee) Purchase of Service Credits Through Plan-to-Plan Transfers. –
14 Notwithstanding any other provision of this Article, and without regard to any
15 limitations on contributions otherwise set forth in this Article, a member, who is eligible
16 to restore or purchase membership or creditable service pursuant to the provisions of
17 G.S. 135-4, may, subject to such rules and regulations established by the Board of
18 Trustees, purchase such service credits through a direct transfer to the Annuity Savings
19 Fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of North
20 Carolina or (ii) any other defined contribution plan qualified under Section 401(a) of the
21 Internal Revenue Code which is maintained by the State of North Carolina, a political
22 subdivision of a state, or any agency or instrumentality of a state or political subdivision
23 of a state."

24 **SECTION 6. G.S. 135-18.7 reads as rewritten:**

25 **"§ 135-18.7. Internal Revenue Code compliance.**

26 (a) Notwithstanding any other provisions of law to the contrary, compensation
27 for any calendar year after 1988 in which employee or employer contributions are made
28 and for which annual compensation is used for computing any benefit under this Article
29 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
30 determined by the Commissioner of Internal Revenue as the limitation for calendar
31 years after 1989; provided the imposition of the limitation shall not reduce a member's
32 benefit below the amount determined as of December 31, 1988.

33 Effective January 1, 1996, the annual compensation of a member taken into account
34 for determining all benefits provided under this Article shall not exceed one hundred
35 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
36 Internal Revenue Code and any regulations issued under the Code. However, with
37 respect to a person who became a member of the Retirement System prior to January 1,
38 1996, the imposition of this limitation on compensation shall not reduce the amount of
39 compensation which may be taken into account for determining the benefits of that
40 member under this Article below the amount of compensation which would have been
41 recognized under the provisions of this Article in effect on July 1, 1993.

42 Effective January 1, 2002, the annual compensation of a person, who became a
43 member of the Retirement System on or after January 1, 1996, taken into account for
44 determining all benefits accruing under this Article for any plan year after December 31,

1 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
2 otherwise set by the Internal Revenue Code or determined by the Commissioner of
3 Internal Revenue as the limitation for calendar years after 2002.

4 (b) Notwithstanding any other provisions of law to the contrary, the annual
5 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
6 required by Section 415(b) ~~and (e)~~ and with respect to calendar years commencing prior
7 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
8 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
9 member is a participant under any qualified defined contributions plan that is required
10 to be taken into account for the purposes of the limitation contained in Section 415 of
11 the Internal Revenue Code, the annual benefit payable under this Article shall be
12 reduced to the extent required by Section 415(e) prior to making any reduction under
13 the defined contribution plan provided by the employer. However, with respect to a
14 member who has benefits accrued under this Article but whose benefit had not
15 commenced as of December 31, 1999, the combined plan limitation contained in
16 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
17 calendar years commencing on or after January 1, 2000.

18 (c) On and after January 1, 1989, the retirement allowance of a member who has
19 terminated employment shall begin no later than the later of April 1 of the calendar year
20 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
21 calendar year following the calendar year in which the member terminates employment.

22 (d) This subsection applies to distributions made on or after January 1, 1993.
23 Notwithstanding any other provision of the Plan to the contrary that would otherwise
24 limit a distributee's election under this Article, a distributee may elect, at the time and in
25 the manner prescribed by the Plan administrator, to have any portion of an eligible
26 rollover distribution paid directly to an eligible retirement plan specified by the
27 distributee in a direct rollover. Provided, an eligible rollover distribution is any
28 distribution of all or any portion of the balance to the credit of the distributee, except
29 that an eligible rollover distribution does not include: any distribution that is one of a
30 series of substantially equal periodic payments (not less frequently than annually) made
31 for the life (or life expectancy) of the distributee or the joint lives (or joint life
32 expectancies) of the distributee and the distributee's designated beneficiary, or for a
33 specified period of 10 years or more; any distribution to the extent such distribution is
34 required under section 401(a)(9) of the Code; and the portion of any distribution that is
35 not includible in gross income (determined without regard to the exclusion for net
36 realized appreciation with respect to employer securities). Effective as of January 1,
37 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
38 fail to be an eligible rollover distribution merely because the portion consists of after-
39 tax employee contributions which are not includible in gross income. However, such
40 portion may be transferred only to an individual retirement account or annuity described
41 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
42 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
43 amounts so transferred, including separately accounting for the portion of such
44 distribution which is includible in gross income and the portion of such distribution

1 which is not so includible. Provided, an eligible retirement plan is an individual
2 retirement account described in section 408(a) of the Code, an individual retirement
3 annuity described in section 408(b) of the Code, an annuity plan described in section
4 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
5 accepts the distributee's eligible rollover distribution. However, in case of an eligible
6 rollover distribution to the surviving spouse, an eligible retirement plan is an individual
7 retirement account or an individual retirement annuity. Effective on and after January 1,
8 2002, an eligible retirement plan shall also mean an annuity contract described in
9 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
10 is maintained by a state, political subdivision of a state, or any agency or instrumentality
11 of a state or political subdivision of a state and which agrees to separately account for
12 amounts transferred into such plan from this Plan. The definition of eligible retirement
13 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
14 former spouse who is the alternate payee under a qualified domestic relations order, as
15 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
16 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
17 includes an employee or former employee. In addition, the employee's or former
18 employee's surviving spouse and the employee's or former employee's spouse or former
19 spouse who is the alternate payee under a qualified domestic relations order, as defined
20 in section 414(p) of the Code, or a court-ordered equitable distribution of marital
21 property, as provided under G.S. 50-20, whichever may be applicable, are distributees
22 with regard to the interest of the spouse or former spouse. Provided further, a direct
23 rollover is a payment by the Plan to the eligible retirement plan specified by the
24 distributee."

25 **SECTION 7.** Article 4 of Chapter 135 of the General Statutes is amended by
26 adding a new section to read:

27 **"§ 135-56.3. Repayments and Purchases.**

28 **(a) Purchase of Service Credits Through Rollover Contributions From Certain**
29 **Other Plans. – Notwithstanding any other provision of this Article, and without regard**
30 **to any limitations on contributions otherwise set forth in this Article, a member, who is**
31 **eligible to restore or purchase membership or creditable service pursuant to the**
32 **provisions of this Article, may, subject to such rules and regulations established by the**
33 **Board of Trustees, purchase such service credits through rollover contributions to the**
34 **Annuity Savings Fund from (i) an annuity contract described in Section 403(b) of the**
35 **Internal Revenue Code, (ii) an eligible plan under Section 457(b) of the Internal**
36 **Revenue Code which is maintained by a state, political subdivision of a state, or any**
37 **agency or instrumentality of a state or political subdivision of a state, (iii) an individual**
38 **retirement account or annuity described in Section 408(a) or 408(b) of the Internal**
39 **Revenue Code that is eligible to be rolled over and would otherwise be includible in**
40 **gross income, or (iv) a qualified plan described in Section 401(a) or 403(a) of the**
41 **Internal Revenue Code. Notwithstanding the foregoing, the Retirement System shall not**
42 **accept any amount as a rollover contribution unless such amount is eligible to be rolled**
43 **over to a qualified trust in accordance with applicable law and the member provides**
44 **evidence satisfactory to the Retirement System that such amount qualifies for rollover**

1 treatment. Unless received by the Retirement System in the form of a direct rollover, the
2 rollover contribution must be paid to the Retirement System on or before the 60th day
3 after the date it was received by the member.

4 Purchase of Service Credits Through Plan-to-Plan Transfers. – Notwithstanding any
5 other provision of this Article, and without regard to any limitations on contributions
6 otherwise set forth in this Article, a member, who is eligible to restore or purchase
7 membership or creditable service pursuant to the provisions of this Article, may, subject
8 to such rules and regulations established by the Board of Trustees, purchase such
9 service credits through a direct transfer to the Annuity Savings Fund of funds from (i)
10 an annuity contract described in Section 403(b) of the Internal Revenue Code or (ii) an
11 eligible plan under Section 457(b) of the Code which is maintained by a state, political
12 subdivision of a state, or any agency or instrumentality of a state or political subdivision
13 of a state.

14 (b) Purchase of Service Credits Through Plan-to-Plan Transfers. –
15 Notwithstanding any other provision of this Article, and without regard to any
16 limitations on contributions otherwise set forth in this Article, a member, who is eligible
17 to restore or purchase membership or creditable service pursuant to the provisions of
18 this Article, may, subject to such rules and regulations established by the Board of
19 Trustees, purchase such service credits through a direct transfer to the Annuity Savings
20 Fund of funds from (i) the Supplemental Retirement Income Plans A, B, or C of North
21 Carolina or (ii) any other defined contribution plan qualified under Section 401(a) of the
22 Internal Revenue Code which is maintained by the State of North Carolina, a political
23 subdivision of a state, or any agency or instrumentality of a state or political subdivision
24 of a state."

25 **SECTION 8. G.S. 135-74 reads as rewritten:**

26 **"§ 135-74. Internal Revenue Code compliance.**

27 (a) Notwithstanding any other provisions of law to the contrary, compensation
28 for any calendar year after 1988 in which employee or employer contributions are made
29 and for which annual compensation is used for computing any benefit under this Article
30 shall not exceed the higher of two hundred thousand dollars (\$200,000) or the amount
31 determined by the Commissioner of Internal Revenue as the limitation for calendar
32 years after 1989; provided the imposition of the limitation shall not reduce a member's
33 benefit below the amount determined as of December 31, 1988.

34 Effective January 1, 1996, the annual compensation of a member taken into account
35 for determining all benefits provided under this Article shall not exceed one hundred
36 fifty thousand dollars (\$150,000), as adjusted pursuant to section 401(a)(17)(B) of the
37 Internal Revenue Code and any regulations issued under the Code. However, with
38 respect to a person who became a member of the Retirement System prior to January 1,
39 1996, the imposition of this limitation on compensation shall not reduce the amount of
40 compensation which may be taken into account for determining the benefits of that
41 member under this Article below the amount of compensation which would have been
42 recognized under the provisions of this Article in effect on July 1, 1993.

43 Effective January 1, 2002, the annual compensation of a person, who became a
44 member of the Retirement System on or after January 1, 1996, taken into account for

1 determining all benefits accruing under this Article for any plan year after December 31,
2 2001, shall not exceed two hundred thousand dollars (\$200,000) or the amount
3 otherwise set by the Internal Revenue Code or determined by the Commissioner of
4 Internal Revenue as the limitation for calendar years after 2002.

5 (b) Notwithstanding any other provisions of law to the contrary, the annual
6 benefit payable on behalf of a member shall, if necessary, be reduced to the extent
7 required by Section 415(b) and ~~(e)~~ and with respect to calendar years commencing prior
8 to January 1, 2000, Section 415(e) of the Internal Revenue Code, as adjusted by the
9 Secretary of the Treasury or his delegate pursuant to Section 415(d) of the Code. If a
10 member is a participant under any qualified defined contributions plan that is required
11 to be taken into account for the purposes of the limitation contained in Section 415 of
12 the Internal Revenue Code, the annual benefit payable under this Article shall be
13 reduced to the extent required by Section 415(e) prior to making any reduction under
14 the defined contribution plan provided by the employer. However, with respect to a
15 member who has benefits accrued under this Article but whose benefit had not
16 commenced as of December 31, 1999, the combined plan limitation contained in
17 Section 415(e) of the Internal Revenue Code shall not be applied to such member for
18 calendar years commencing on or after January 1, 2000.

19 (c) On and after January 1, 1989, the retirement allowance of a member who has
20 terminated employment shall begin no later than the later of April 1 of the calendar year
21 following the calendar year that the member attains 70 1/2 years of age or April 1 of the
22 calendar year following the calendar year in which the member terminates employment.

23 (d) This subsection applies to distributions made on or after January 1, 1993.
24 Notwithstanding any other provision of the Plan to the contrary that would otherwise
25 limit a distributee's election under this Article, a distributee may elect, at the time and in
26 the manner prescribed by the Plan administrator, to have any portion of an eligible
27 rollover distribution paid directly to an eligible retirement plan specified by the
28 distributee in a direct rollover. Provided, an eligible rollover distribution is any
29 distribution of all or any portion of the balance to the credit of the distributee, except
30 that an eligible rollover distribution does not include: any distribution that is one of a
31 series of substantially equal periodic payments (not less frequently than annually) made
32 for the life (or life expectancy) of the distributee or the joint lives (or joint life
33 expectancies) of the distributee and the distributee's designated beneficiary, or for a
34 specified period of 10 years or more; any distribution to the extent such distribution is
35 required under section 401(a)(9) of the Code; and the portion of any distribution that is
36 not includible in gross income (determined without regard to the exclusion for net
37 realized appreciation with respect to employer securities). Effective as of January 1,
38 2002, and notwithstanding the preceding sentence, a portion of a distribution shall not
39 fail to be an eligible rollover distribution merely because the portion consists of after-
40 tax employee contributions which are not includible in gross income. However, such
41 portion may be transferred only to an individual retirement account or annuity described
42 in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan
43 described in Section 401(a) or 403(a) of the Code that agrees to separately account for
44 amounts so transferred, including separately accounting for the portion of such

1 distribution which is includible in gross income and the portion of such distribution
2 which is not so includible. Provided, an eligible retirement plan is an individual
3 retirement account described in section 408(a) of the Code, an individual retirement
4 annuity described in section 408(b) of the Code, an annuity plan described in section
5 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that
6 accepts the distributee's eligible rollover distribution. ~~However, in case of an eligible~~
7 ~~rollover distribution to the surviving spouse, an eligible retirement plan is an individual~~
8 ~~retirement account or an individual retirement annuity.~~ Effective on and after January 1,
9 2002, an eligible retirement plan shall also mean an annuity contract described in
10 Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which
11 is maintained by a state, political subdivision of a state, or any agency or instrumentality
12 of a state or political subdivision of a state and which agrees to separately account for
13 amounts transferred into such plan from this Plan. The definition of eligible retirement
14 plan shall also apply in the case of a distribution to surviving spouse, or to a spouse or
15 former spouse who is the alternate payee under a qualified domestic relations order, as
16 defined in Section 414(p) of the Internal Revenue Code, or a court-ordered equitable
17 distribution of marital property, as provided under G.S. 50-30. Provided, a distributee
18 includes an employee or former employee. In addition, the employee's or former
19 employee's surviving spouse and the employee's or former employee's spouse or former
20 spouse who is the alternate payee under a qualified domestic relations order, as defined
21 in section 414(p) of the Code, or a court ordered equitable distribution of marital
22 property, as provided under G.S. 50-20, whichever may be applicable, are distributees
23 with regard to the interest of the spouse or former spouse. Provided further, a direct
24 rollover is a payment by the Plan to the eligible retirement plan specified by the
25 distributee."

26 **SECTION 9.** Sections 1, 3, 5, and 7 of this act become effective January 1,
27 2003, or the date otherwise specified in the act, except that (i) the changes in G.S.
28 120-4.31(b), 128-38.2(b), 135-18.7(b) and 135-74(b) become effective January 1, 2000,
29 and (ii) G.S. 120-4.16(c), 128-26(u), 135-4(ee), and 135-56.3(b), as enacted in those
30 sections, become effective the later of January 1, 2003, or the date upon which the
31 Department of State Treasurer receives a ruling from the Internal Revenue Service
32 approving the direct transfers provided for in those subsections. The remainder of this
33 act is effective when it becomes law.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

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Room 9, Legislative Building
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300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

July 1, 2002

MEMORANDUM

TO: Senator Harris

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note Senate Bill 1429

Re: Retirement Systems Conforming Changes

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Senate Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Senate Bill 1429

SHORT TITLE: Retirement System Conforming Changes

SPONSOR: Senator Harris

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

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

BILL SUMMARY: Makes changes to the four major retirement systems to conform to the Economic Growth and Tax Relief Reconciliation Act of 2001. The bill allows for the use of rollover contributions from other plans to make service purchases in the four systems. It also increases the level of compensation for plan years after December 31, 2001, to \$200,000.

EFFECTIVE DATE: When it becomes law except that sections 1, 3, 5 and 7 become effective January 1, 2003. Parts become effective either January 1, 2003, or the date the ruling by IRS is received.

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost would be negligible and would have no material impact.

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, 2000, actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

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, 2000, actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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.

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, 2000, actuarial valuation of the fund. The data included 470 active members with an annual payroll of \$43.5 million and 368 retired members in receipt of annual pensions totaling \$14.5 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

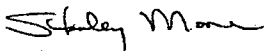
The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2000, actuarial valuation of the fund. The data included 172 active members with an annual payroll of \$3.7 million and 189 retired members in receipt of annual pensions totaling \$1,055,125. 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.

General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION (919) 733-4910

PREPARED BY: Stanley Moore



APPROVED BY: James D. Johnson



DATE: July 1, 2002

BUCK CONSULTANTS[®]

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 19, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

Senate Bill 1429

Dear Mr. Williamson:

We have received your letter of June 15 regarding Senate Bill 1429 which affects the Teachers' and State Employees' Retirement System, the Local Governmental Employees' Retirement System and the Consolidated Judicial Retirement System. This legislation also affects the Legislative Retirement System, which we will not address because we are not the consulting actuaries for this system.

This legislation appears to amend the Plans to conform to certain permissive provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 as well as to make certain mandatory changes. Specifically, this legislation appears to amend the plans to allow the purchase of service credits through rollover contributions from (i) an annuity contract described in Section 403(b) of the Code, (ii) and eligible plan under Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (iii) an individual retirement account or annuity described in Section 408(a) or 408(b) of the Code, or (iv) a qualified plan described in Section 401(a) or 403(a) of the Code. This legislation appears to amend the plans to allow the purchase of service credits through a direct transfer of funds from (i) an annuity contract described in Section 403(b) of the Code, or (ii) an eligible plan under Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state. In addition, this legislation appears to amend the plans to allow the purchase of service credits through a direct transfer of funds from (i) the Supplemental Retirement Income Plans A, B, or C, or (ii) any other defined contribution plan qualified under Section 401(a) of the Code which is maintained by the State of North Carolina, a political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state (subject to a ruling from the Internal Revenue Service approving this direct transfer).

Mr. Michael L. Williamson
June 19, 2002
Page 2

This legislation also appears to amend the Plans to increase the compensation taken into account in determining all benefits to \$200,000 for persons becoming members on or after January 1, 1996. The remaining amendments to the Internal Revenue Code compliance sections, as we understand, are to bring the Plans in compliance with mandatory Internal Revenue Code changes affecting these Plans.

The impact of this legislation on the various Retirement Systems would be negligible.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

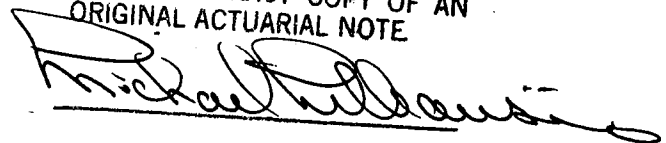


Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

P:\North Carolina Teachers\2002\Documents\Correspondence\House Bill 1671.doc

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 26, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Bill 1429: An Act to Make Changes in the TSERS,
CJRS, LRS, and LGERS to Conform with the Provisions of
EGTRRA

Dear Mr. Moore:

This bill would amend the North Carolina General Statutes to conform provisions in the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the Local Governmental Employees' Retirement System (LGERS) to the federal Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The changes provided by this bill are as follows:

- allow members to purchase eligible service credits through rollover contributions from qualified retirement plans;
- increase the limit on plan compensation to \$200,000;
- repeal the limit on benefits when a member participates in both a defined contribution and defined benefit plan;
- allow members to roll after-tax employee contributions to certain plans that agree to separately account for such funds; and
- allow members to roll eligible funds to a Section 403(b) or 457 plan.

The provisions of this act related to the purchase of service credits through rollover contributions are generally effective January 1, 2003. The remainder of this act is effective when it becomes law.

The increase in the compensation limit will increase retirement

Mr. Stanley Moore
June 26, 2002

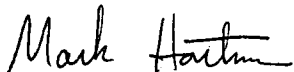
Page 2

benefits for certain employees, producing a cost to the retirement system. We have estimated the annual cost at \$4,000-\$5,000 for each member whose compensation exceeds the prior annual limit of \$170,000. The number of employees affected is expected to be small in comparison to the size of each plan. Thus, these changes are not expected to have a material financial impact in the TSERS, CJRS, LRS, and LGERS.

These estimates are based on information contained in the most recent actuarial valuations prepared as of December 31, 2000.

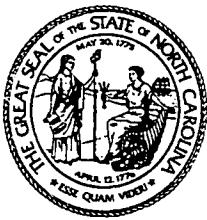
If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/jj



SENATE BILL 1429: Retirement System Conforming Changes.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 17, 2002
Version: First Edition

Introduced by: Sen. Harris
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *This bill amends the laws governing the Legislative Retirement System, the Local Governmental Employees' Retirement System, the Teachers' and State Employees' Retirement System, and the Consolidated Judicial Retirement System to conform to provisions of the federal Economic Growth and Tax Relief Reconciliation Act of 2001.*

BILL ANALYSIS:

In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which included a broad array of changes in the tax laws governing qualified pension plans. These changes were intended to improve and simplify the ability of Americans to save for retirement.

Prior to the enactment of EGTRRA, federal law did not allow for the use of rollover contributions to purchase service credit or for the purchase of service credit through plan-to-plan transfers.

This bill would conform the law governing each of the four major retirement systems to allow the purchase of service credit through the rollover of contributions made to a 403(b) annuity contract, a 457(b) plan, an IRA, or another qualified pension plan. The bill would also authorize the purchase of service credit through a direct plan-to-plan transfer from a 403(b) or 457(b) plan or from one of the Supplemental Retirement Income Plans.

The bill also makes several changes to contribution and benefit limits. The maximum annual compensation used for determining all benefits under the plan would be set at \$200,000, effective January 1, 2002, and indexed for inflation thereafter. The bill also conforms benefit limits to the federal law.

Also, effective January 1, 2002, rollovers are permitted to be made with after-tax contributions to qualified plans or IRAs. However, the plan must be set up to provide separate accounting for such contributions and the earnings on after-tax contributions. The bill also allows a surviving spouse or former spouse to rollover distributions to his or her own plan.

The sections of the bill affecting the purchase of service credit through rollovers and plan-to-plan transfers would become effective January 1, 2003, except that the provisions relating to plan-to-plan transfers from one of the Supplemental Retirement Income Plans could become effective earlier if the Department of State Treasurer receives a ruling from the IRS approving the direct transfers. The remainder of the act would become effective when it becomes law.

BACKGROUND:

Senate Bill 1292 (2nd Edition) amends the state tax laws to conform North Carolina's tax treatment of public and private pension benefits and distributions to EGTRRA. This bill has passed the Senate and has been referred to the House Finance Committee.

**2002 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report(s) from standing committee(s) is/are presented:

By Representative(s) **Barefoot & Cox** (Chairs) for the Committee on **PENSIONS AND RETIREMENT**.

☒ Committee Substitute for

S.B. 1429 A BILL TO BE ENTITLED AN ACT TO MAKE CHANGES IN THE TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM, THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM, THE LEGISLATIVE RETIREMENT SYSTEM, AND THE CONSOLIDATED JUDICIAL RETIREMENT SYSTEM TO CONFORM WITH THE PROVISIONS OF THE ECONOMIC GROWTH AND TAX RELIEF RECONCILIATION ACT OF 2001.

☒ With a favorable report.

☐ With a favorable report and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☐ With a favorable report, as amended.

☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the Committee on Appropriations ☐ Finance ☐.

☐ With a favorable report as to the committee substitute bill (#), ☐ which changes the title, unfavorable as to (the original bill) (Committee Substitute Bill #), (and recommendation that the committee substitute bill #) be re-referred to the Committee on .)

☐ With a favorable report as to House committee substitute bill (#), ☐ which changes the title, unfavorable as to Senate committee substitute bill.

☐ With an unfavorable report.

☐ With recommendation that the House concur.

☐ With recommendation that the House do not concur.

☐ With recommendation that the House do not concur; request conferees.

☐ With recommendation that the House concur; committee believes bill to be material.

☐ With an unfavorable report, with a Minority Report attached.

☐ Without prejudice.

☐ With an indefinite postponement report.

☐ With an indefinite postponement report, with a Minority Report attached.

☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

5/13/02

MINUTES
HOUSE COMMITTEE ON PENSIONS AND RETIREMENT
JULY 24, 2002

The House Committee on PENSIONS AND RETIREMENT met on Wednesday, July 24, 2002 at 10:00 am in Room 415 of the Legislative Office Building. In attendance were Representatives Barefoot and Cox, co-chairs for the committee. The list of others members present is provided in the attached attendance sheet, along with the Visitor Registration sheet. Other attachments are listed and have been made a part of the minutes.

Representative Cox called the meeting to order and introduced the pages serving the committee: Mr. Bobby Dunn of Wake County, sponsored by Representative Beverly Earle, Mr. Robert Beniquito of Guilford County, sponsored by Representative John Blust, and Mr. Clark Leonard of Wake County, sponsored by Representative Alex Warner.

HOUSE BILL 1724, RETIREMENT/TENURE/TEACHER EXCHANGE PROGRAMS, sponsored by Representative Joe Hackney was before the committee for consideration. Representative Hackney was asked to explain the bill. He stated that a proposed committee substitute was present. Representative Barbee moved that it be given a favorable report.

Representative Hackney explained the impact the bill would have on teacher recruitment and that it corrects an error in the previous bill. Representative Starnes was recognized to ask a question. He asked if an exchange student stayed in the US would she be eligible to buy back retirement. Mr. Moore answered no for Representative Hackney.

Follow up from Representative Starnes asking whether under the current law they were eligible. Representative Hackney stated they could leave the funds in the account; however, he didn't believe that happened very often. Representative Barbee made a motion **favorable to the proposed committee substitute and unfavorable to the original bill. The motion carried.**

HOUSE BILL 1617, REPEAL DISABILITY RETIREMENT EXCLUSION, sponsored by Chairman Cox was before the Committee for consideration. Chairman Barefoot was asked to chair the meeting so that Chairman Cox could explain the bill. Chairman Cox explained that the bill would benefit firemen and rescue personnel, and that a proposed committee was being passed out. Representative Gene Wilson moved that the proposed committee substitute be opened for discussion, the motion carried.

Chairman Cox called Mr. Stanley Moore to explain the proposed committee substitute. Mr. Moore explained the current law and how the proposed law would affect fire, rescue and emergency personnel. He stated that the proposed law is a diversion from the current law and that there would be a cost to the State and taxpayers. Chairman

Barefoot asked if the bill would need to go to the Committee on Appropriations, Mr. Moore answered that it would.

Representative Starnes asked Mr. Moore if under the current a person receives disability until retirement age at which time he would no longer be eligible for disability. Mr. Moore stated that a person who receives disability would have earning restrictions placed upon them, but would have to provide income and medical statements until they complete required service.

Chairman Cox stated that the current law curtails people's abilities to earn a living. Representative Shubert was recognized to answer a question regarding health benefits and whether they would be retained. Mr. Moore answered that they would retain benefits according to the policy of the municipality.

Vice Chairman McCombs was recognized to ask a question concerning why the bill was needed. Chairman Cox responded that it was needed in order to maintain equity within the system. Vice Chairman McCombs requested to hear from the people who would benefit from the bill. Representative Starnes was recognized to ask a question regarding the bill. He stated that he felt the proposed bill was an incentive to become disabled.

Mr. Moore stated that a person who has worked 30 years has contributed to the system during that time; however, a person who is disabled within the first year of work is given a projection of what he would contribute over a 30-year-period and does not actually contribute that amount.

Chairman Barefoot asked the members of the audience who would like to speak. The following people stood to be recognized: Mr. Ellis Hankins (NC League of Municipalities), Mr. Marshall Barnes (NC State Treasurer's Office), Mr. David Anders (Firefighters and Paramedics) and Mr. Joey Shue (Retired fireman of Sanford).

Mr. Hankins was recognized to speak. He stated he did not see the need for the change, and that it should be applicable to the State as well. Mr. Barnes stated the bill did not repeal the annual statement of income. And at some point the people would be treated as service retirees and would still be subject to the State's laws.

Mr. Anders stated that this bill would most affect those people who have more than one job due to the fact that once those people become disabled, by law they would not be able to work the second job, thus their income would be reduced by the amount lost to disability plus the second job. Further, the lack of insurance provided by municipalities following retirement was also a factor.

Mr. Meyer stated that his organization was opposed to the bill because of the cost and policy changes.

Mr. Shue stated that he was a disabled retired firefighter and that he worked three jobs while he was a firefighter. His standard of living was lessened by his disability.

Representative Starnes was recognized to ask a question regarding the bill and if the cost of living increases were based upon the General Assembly's standards and if the amount would increase exponentially. Mr. Moore answered that disability recipients receive the same increase as retired personnel.

Representative Shubert was recognized to make a statement, and stated that the bill was more complicated than it looks. She stated that Mr. Anders made a very interesting comment regarding the number of people who have more than one job; however, she was dubious that municipalities should be asked to take on a burden the State was not willing to take.

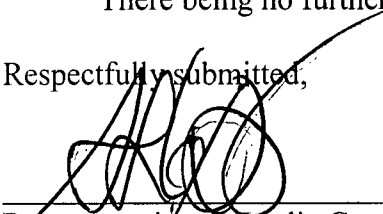
Chairman Cox stated the only reason the State was not included was because no State Employee has requested it. Representative Starnes asked a question of Mr. Shue and if he worked more than one position during his tenure with the municipality. Mr. Shue stated that he did.

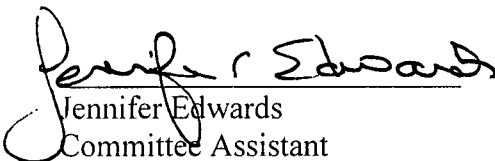
Chairman Barefoot stated that Vice Chairman McCombs would be making a motion. He then recognized former Representative Don Beard, who was in the audience.

Vice Chairman McCombs made a motion to adjourn with no discussion allowed. The motion carried.

There being no further business, Representative Cox adjourned the meeting.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Jennifer Edwards
Committee Assistant

Attachments

House Bill 1617
House Bill 1724

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

**Wednesday, July 24, 2002
Room 415 Legislative Office Building
10:00 am**

REPRESENTATIVE A. LESLIE COX, Jr. CHAIRING

I. CALL TO ORDER

II. WELCOME

III. INTRODUCTIONS

IV. BILLS TO BE CONSIDERED:

HB 1617 REPEAL DISABILITY RETIREMENT EXCLUSION
Rep. A. Leslie Cox, Jr.

HB 1724 RETIREMENT/TENURE/TEACHER EXCHANGE PROGRAMS
Rep. Joe Hackney

V. COMMENTS

VI. ADJOURN

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1617

Short Title: Repeal Disability Retirement Exclusion.

(Public)

Sponsors: Representative Cox.

Referred to: Pensions and Retirement.

June 12, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO REPEAL LANGUAGE EXCLUDING CERTAIN RETIRED LAW
3 ENFORCEMENT OFFICERS FROM THE REEXAMINATION REQUIREMENT
4 FOR DISABILITY RETIREMENT BENEFITS.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. G.S. 128-27(e)(1) reads as rewritten:

7 "(1) The Board of Trustees shall determine whether a disability beneficiary
8 is engaged in or is able to engage in a gainful occupation paying more
9 than the difference, as hereinafter indexed, between his disability
10 retirement allowance and the gross compensation earned as an
11 employee during the 12 consecutive months in the final 48 months of
12 service prior to retirement producing the highest gross compensation
13 excluding any compensation received on account of termination. If the
14 disability beneficiary is earning or is able to earn more than the
15 difference, the portion of his disability retirement allowance not
16 provided by his contributions shall be reduced to an amount which,
17 together with the portion of the disability retirement allowance
18 provided by his contributions and the amount earnable by him shall
19 equal the amount of his gross compensation prior to retirement. This
20 difference shall be increased on January 1 each year by the ratio of the
21 Consumer Price Index to the Index one year earlier, calculated to the
22 nearest tenth of a percent (1/10 of 1%). Should the earning capacity of
23 the disability beneficiary later change, the portion of his disability
24 retirement allowance not provided by his contributions may be further
25 modified. In lieu of the reductions on account of a disability
26 beneficiary earning more than the aforesaid difference, he may elect to
27 convert his disability retirement allowance to a service retirement
28 allowance calculated on the basis of his average final compensation
29 and creditable service at the time of disability retirement and his age at

1 the time of conversion to service retirement. This election is
2 irrevocable.

3 ~~The provisions of this subdivision shall not apply to beneficiaries~~
4 ~~of the Law Enforcement Officers' Retirement System transferred to~~
5 ~~this Retirement System who commenced retirement on and before July~~
6 ~~1, 1981."~~

7 **SECTION 2.** This act is effective when it becomes law.

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

H

D

**HOUSE BILL 1617
PROPOSED COMMITTEE SUBSTITUTE H1617-PCS7391-LL-39**

Short Title: Repeal Disability Retirement Reduction.

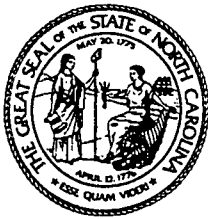
(Public)

Sponsors:

Referred to:

June 12, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO REPEAL THE EARNINGS REDUCTION FOR DISABILITY
3 RETIREMENT BENEFICIARIES.
4 The General Assembly of North Carolina enacts:
5 **SECTION 1.** G.S. 128-27(e)(1) is repealed.
6 **SECTION 2.** This act is effective when it becomes law.



HOUSE BILL 1617: Repeal Disability Retirement Reduction.

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: July 24, 2002
Version: Proposed Committee Substitute
(H1617-PCS7391-LL-39)

Introduced by: Rep. Cox
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY:

The Proposed Committee Substitute for House Bill 1617 amends the law governing the Local Governmental Employees' Retirement System to repeal the provision that limits the amount a disability beneficiary can earn and continue to receive disability retirement benefits.

CURRENT LAW:

Under current law, a member of the Local Governmental Employees' Retirement System who is retired for disability must be reexamined periodically to determine whether the member continues to be disabled for the performance of the members duties and whether the member is able to engage in gainful employment. If it is determined that the member may engage in gainful employment, other the position for which the member is disabled, the member may earn the difference between the member's salary at retirement and the disability retirement benefit, without losing the disability benefit. Each year the amount the member may earn is indexed for inflation. If the member earns more than this amount, the disability retirement benefit is reduced so that the total of benefits and earnings do not exceed the member's gross compensation prior to retirement.

BILL ANALYSIS:

This bill would repeal the provision which limits the amount a disability beneficiary may earn and continue to receive disability retirement benefits. The bill would allow a disability beneficiary to earn an unlimited amount and continue to receive benefits, so long as the beneficiary remained disabled for the performance of his or her duties.

This act would become effective when it becomes law.



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Legislative Services Office**

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Raleigh, NC 27603-5925
(919) 733-2578

July 19, 2002

MEMORANDUM

TO: Representative Leslie Cox

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1617

Re: Removes earnings restriction for disability retirees in the Local Governmental Employees' Retirement System

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Committee Substitute for House Bill 1617

SHORT TITLE: Repeal Disability Retirement Reduction

SPONSOR(S): Representative Cox

SYSTEM OR PROGRAM AFFECTED: Local Governmental Employees' Retirement System

FUNDS AFFECTED: Local Funds

BILL SUMMARY: Under the present law, any member who is retired on disability is allowed to earn the difference between the salary at retirement and the disability retirement benefit, with no effect on the disability retirement benefit. If earnings are greater than this difference, the disability retirement benefit is reduced dollar for dollar. This bill removes any earning restrictions for any member of the Local Governmental Employees' Retirement System who is retired on disability.

EFFECTIVE DATE: When it becomes law.

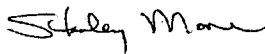
ESTIMATED IMPACT ON LOCAL GOVERNMENTS: Buck Consultants says the cost would be a loss of savings that would otherwise occur when the benefit is reduced because of excess earning. Hartman & Associates was not able to estimate the total financial impact since data regarding current or potential earning capability is not available.

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, 2000, actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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 (919) 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson\



DATE: July 19, 2002

BUCK CONSULTANTS[®]

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 18, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Divisions
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1388

Proposed Committee Substitute for House Bill 1617

Dear Mr. Williamson:

We have received your letter of July 15 regarding Proposed Committee Substitute for House Bill 1617, which affects the Local Governmental Employees' Retirement System.

This legislation appears to repeal the statutes limiting the amount a beneficiary, in receipt of a disability retirement allowance, may earn without affecting his retirement allowance. The proposed amendment appears to allow a disability beneficiary to have unrestricted earnings in non-covered employment. The proposed amendment makes no change in the current statutory requirement that a disability allowance be terminated and the beneficiary again become a contributing member in the event the beneficiary returns to covered employment.

It is our understanding there is no information available relative to the numbers of retired members in receipt of disability allowances who exceed their annual earnings limitations. This proposed committee substitute does not amend the current provisions requiring a disability beneficiary to annually submit a statement of earnings nor does it amend the provisions imposing the earnings restrictions applicable to service retirees when the member reaches the point that he/she would have qualified for service retirement benefits.

The effect of this legislation is a loss of savings that would otherwise occur.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

P:\North Carolina Local Gov\2002\Documents\Correspondence\House Bill 1617.doc

THIS IS TO CERTIFY THAT THIS IS A
TRUE AND EXACT COPY OF AN
ORIGINAL ACTUARIAL NOTE



Buck Consultants, Inc.

7701955-2488 Fax 7701933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038
Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

July 15, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed Committee Substitute to House Bill 1617: An Act to
Repeal the Earnings Reduction for Disability Retirement

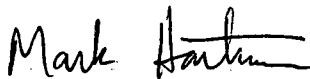
Dear Mr. Moore:

This proposed committee substitute would repeal G.S. 128-27(e)(1), eliminating the earnings test for disabled beneficiaries in the Local Governmental Employee's Retirement System (LGERS). Currently, the retirement allowance for a disabled beneficiary is reduced if he is earning or is able to earn more than the difference in his compensation prior to retirement and his disability retirement allowance, indexed to the CPI. This proposal would eliminate the earnings test and the reduction in the disability retirement allowance. This proposal is effective when it becomes law.

This proposal is expected to produce a cost to the LGERS equal to the reduction in benefits provided by the current statute. As of December 31, 2000, 5,573 members in the LGERS were receiving a disability retirement allowance. We do not have data regarding the current or potential earnings for these members needed to compute the reduction in allowances under the current statute. Thus, we are not able to estimate the total financial impact of this proposal.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

D

HOUSE BILL 1724
PROPOSED COMMITTEE SUBSTITUTE H1724-CSSH-29 [v.1]

7/23/2002 3:52:59 PM

Short Title: Retirement/Tenure/Teacher Exchange Programs.

(Public)

Sponsors:

Referred to:

June 13, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO CLARIFY THE STATUS OF TEACHERS PARTICIPATING IN
3 FOREIGN EXCHANGE PROGRAMS FOR PURPOSES OF RETIREMENT AND
4 TENURE.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. G.S. 135-1(25) reads as rewritten:

7 "(25) "Teacher" shall mean any teacher, helping teacher, librarian, principal,
8 supervisor, superintendent of public schools or any full-time
9 employee, city or county, superintendent of public instruction, or any
10 full-time employee of Department of Public Instruction, president,
11 dean or teacher, or any full-time employee in any educational
12 institution supported by and under the control of the State: Provided,
13 that the term "teacher" shall not include any part-time, temporary, or
14 substitute teacher or employee, and shall not include those
15 participating in an optional retirement program provided for in G.S.
16 135-5.1. In all cases of doubt, the Board of Trustees, hereinafter
17 [hereinbefore] defined, shall determine whether any person is a teacher
18 as defined in this Chapter. On and after August 1, 2001, a person who
19 is a nonimmigrant alien and who otherwise meets the requirements of
20 this subdivision shall not be excluded from the definition of "teacher"
21 solely because the person holds a temporary or time-limited visa.
22 Notwithstanding the foregoing, the term "teacher" shall not include
23 any nonimmigrant alien employed in elementary or secondary public
24 schools (whether employed in a full-time, part-time, temporary,
25 permanent, or substitute teacher position) and participating in an
26 exchange visitor program designated by the United States Department
27 of State pursuant to 22 C.F.R. Part 62."

1 **SECTION 2.** G.S. 115C-325(a) is amended by adding a new subdivision to
2 read:

3 "(4b) "Exchange teacher" means a nonimmigrant alien teacher participating
4 in an exchange visitor program designated by the United States
5 Department of State pursuant to 22 C.F.R. Part 62."

6 **SECTION 3.** G.S. 115C-325(c) is amended by adding a new subdivision to
7 read:

8 "(6) Status of Exchange Teachers. – Exchange teachers shall not be eligible
9 to obtain career status. However, for purposes of determining
10 eligibility to receive employment benefits under this Chapter,
11 including personal leave, annual vacation leave, and sick leave, an
12 exchange teacher shall be considered a permanent teacher if employed
13 with the expectation of at least six full consecutive monthly pay
14 periods of employment and if employed at least 20 hours per week."

15 **SECTION 4.** This act becomes effective July 1, 2002.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE BILL 1724

Short Title: Retirement/Tenure/Teacher Exchange Programs.

(Public)

Sponsors: Representative Hackney.

Referred to: Education.

June 13, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO CLARIFY THE STATUS OF TEACHERS PARTICIPATING IN
3 FOREIGN EXCHANGE PROGRAMS FOR PURPOSES OF RETIREMENT AND
4 TENURE.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. G.S. 135-1(25) reads as rewritten:

7 "(25) "Teacher" shall mean any teacher, helping teacher, librarian, principal,
8 supervisor, superintendent of public schools or any full-time
9 employee, city or county, superintendent of public instruction, or any
10 full-time employee of Department of Public Instruction, president,
11 dean or teacher, or any full-time employee in any educational
12 institution supported by and under the control of the State: Provided,
13 that the term "teacher" shall not include any part-time, temporary, or
14 substitute teacher or employee, and shall not include those
15 participating in an optional retirement program provided for in G.S.
16 135-5.1. In all cases of doubt, the Board of Trustees, hereinafter
17 [hereinbefore] defined, shall determine whether any person is a teacher
18 as defined in this Chapter. On and after August 1, 2001, a person who
19 is a nonimmigrant alien and who otherwise meets the requirements of
20 this subdivision shall not be excluded from the definition of "teacher"
21 solely because the person holds a temporary or time-limited visa. For
22 purposes of Article 1 of this Chapter only, nonimmigrant alien teachers
23 participating in an exchange visitor program administered by the
24 United States Department of State who teach in elementary or
25 secondary public schools shall be considered temporary teachers."

26 SECTION 2. G.S. 115C-325(a) is amended by adding a new subdivision to

27 read:

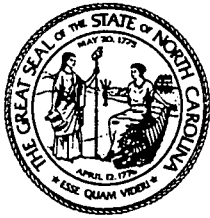
28 "(4b) "Exchange teacher" means a nonimmigrant alien teacher, whether
29 otherwise full-time, part-time, temporary, permanent, or substitute

1 participating in an exchange visitor program administered by the
2 United States Department of State."

3 **SECTION 3.** G.S. 115C-325(c) is amended by adding a new subdivision as
4 follows:

5 "(6) Status of Exchange Teachers. – Notwithstanding any other provision
6 of this Chapter, exchange teachers shall not be eligible to obtain career
7 status. However, except to the extent necessary to give full effect to
8 this subdivision, exchange teachers shall be treated as full-time,
9 permanent teachers for purposes of determining salary and eligibility
10 to receive employment benefits other than retirement, including
11 vacation, personal leave, annual leave, and sick leave."

12 **SECTION 4.** This act becomes effective July 1, 2002.



HOUSE BILL 1724: Retirement/Tenure/Teacher Exchange Programs

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: July 23, 2002
Version: PCS: H1724-CSSH-29 [v.1]

Introduced by: Representative Hackney
Summary by: Theresa Matula
Committee Staff

SUMMARY: *The Proposed Committee Substitute (PCS) for House Bill 1724 amends G.S. 135-1 clarifying that a nonimmigrant alien participating in an exchange visitor program is not considered a "teacher" for purposes of the Teachers' and State Employees' Retirement System, amends G.S. 115C-325(a) to add the definition of "exchange teacher," and adds a subdivision to G.S. 115C-325(c) to clarify benefit eligibility and to specify that exchange teachers shall not be eligible to obtain career status.*

BILL ANALYSIS:

Section 1. G.S. 135-1 is the definitions section for the Teachers' and State Employees' Retirement System. The PCS for H 1724 amends the definition of "Teacher" in G.S. 135-1(25) to clarify that the term shall not include nonimmigrant aliens employed in elementary or secondary public schools and participating in an exchange visitor program designated by the US Department of State pursuant to 22 C.F.R. Part 62.

Section 2. Chapter 115C contains laws relating to elementary and secondary education, G.S. 115C-325(a) defines the terms used in the section covering the system of employment for public school teachers. The PCS for House Bill 1724 amends G.S. 115C-325(a) by adding a new subdivision defining the term "Exchange teacher." With this amendment, an exchange teacher is defined as a nonimmigrant alien teacher participating in an exchange visitor program designated by the United States Department of State pursuant to 22 C.F.R. Part 62.

Section 3. G.S. 115C-325(c) contains the provisions for career status for teachers. The PCS for House Bill 1724 amends G.S. 115C-325(c) to establish that exchange teachers shall not be eligible to obtain career status, but shall be treated as permanent teachers for purposes of determining benefit eligibility. To be considered permanent, they must be employed with the expectation of at least six consecutive monthly pay periods and for at least 20 hours per week.

Section 4. The PCS for House Bill 1724 would be effective July 1, 2002.

BACKGROUND:

Exchange Visitor Program: The regulations under 22 C.F.R. Part 62 specifies that the purpose of the Exchange Visitor Program is to provide foreign nationals with opportunities to participate in educational and cultural programs in the United States and return home to share their experiences, and to encourage Americans to participate in educational and cultural programs in other countries. Participation by foreign nationals in an exchange visitor program is limited to specific categories of individuals – teachers teaching full-time in a primary or secondary accredited educational institution is one such category. It is intended that such exchanges will enable visitors to understand American culture, society, and teaching practices at the primary and secondary levels, and enhance American knowledge of foreign cultures, customs, and teaching approaches.

Permanent Employee: The PCS definition of a permanent teacher is consistent with the definition in Section 01.1.1.(b) of the *Public Schools of North Carolina Benefit and Policy Manual* which defines "permanent employee" as an employee who is "Employed with the expectation of at least six full consecutive monthly pay periods of employment to replace one or more employees who are on leave of absence without pay. Eligibility for benefits or upon change of employment status must be designated at time of initial employment."



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(919) 733-2578

July 23, 2002

MEMORANDUM

TO: Representative Hackney

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note House Bill 1724

Re: Retirement for teachers in exchange program

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: House Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note. Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Proposed Committee Substitute House Bill 1724

SHORT TITLE: Retirement/Tenure/Teacher Exchange Programs

SPONSOR: Representative Hackney

SYSTEM OR PROGRAM AFFECTED: Teachers' & State Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Excludes from membership in the Teachers' & State Employees' Retirement System any nonimmigrant alien employed in elementary or secondary public schools and participating in an exchange visitor program designated by the United States Department of State.

EFFECTIVE DATE: July 1, 2002

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that the cost would be negligible.

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, 2000, actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1,107,743 retired members in receipt of annual pensions totaling \$1.68 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson



DATE: July 22, 2002

BUCK CONSULTANTS

A Mallin Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 22, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

Proposed Committee Substitute for House Bill 1724

Dear Mr. Williamson:


We have received your letter of July 22 regarding Proposed Committee Substitute for House Bill 1724 which affects the Teachers' and State Employees' Retirement System.

This legislation appears, in Section 1, to exclude from membership any nonimmigrant alien employed in elementary or secondary public schools who participates in an exchange visitor program designated by the United States Department of State pursuant to 22 C.F.R. Part 62. Sections 2 and 3 appear to amend Chapter 115C governing elementary and secondary education.

The cost to the System due to this legislation is negligible.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,



Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

C:\North Carolina Teachers\2002\Documents\Consulting\House Bill 1724.doc

Buck Consultants, Inc.

7701955-2488 Fax 7701933-8336

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

July 19, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed Committee Substitute to House Bill 1724: An Act to
Clarify the Status of Teachers Participating in Foreign
Exchange Programs

Dear Mr. Moore:

This proposed committee substitute would amend the definition of teacher in G.S. 135-1(25) to provide that "teacher" does not include any nonimmigrant alien employed in the public schools and participating in an exchange visitor program designated by the United States Department of State. G.S. 115C-325 is also amended to provide that these exchange teachers are not eligible to obtain career status. This act becomes effective July 1, 2002.

Under this proposal, exchange teachers would not be eligible to participate in the Teachers' and State Employees' Retirement System (TSERS). This change is not expected to have a significant financial impact in the TSERS.

If you have any questions, let me know.

Sincerely,

Mark Hartman

Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

JULY 24, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Mary Doney

VIE

Audrey D. Galloway

NCAE

Kurt Hill

NL State Watch

R. DON BEARD

PAST REP.

MINUTES
HOUSE COMMITTEE ON PENSIONS AND RETIREMENT
August 5, 2002

The House Committee on PENSIONS AND RETIREMENT met on Wednesday, August 5, 2002 at 9:30 pm in Room 415 of the Legislative Office Building. In attendance were Representatives Barefoot and Cox, co-chairs for the committee. Members of the Committee in attendance were Representatives Barbee, Easterling, Hensley, Rogers, Shubert, Gene Wilson and Yongue.

Chairman Barefoot called the meeting to order. He stated that there were two special provisions before the committee that were time sensitive. Representative Redwine was called to explain the provision. He asked that Mr. Moore explain the provision. He explained that it was a special provision that had been in the Senate version of the budget and was being considered by the committee to be included in the House version. He stated that it "grandfathered" anyone who had an employment contract for the 2003 year. The law currently allows anyone to retire and come back to earn 50% of what they earned prior to retirement, plus their retirement benefits. The provision stops that practice from continuing henceforth, but allows anyone currently doing it or anyone who has signed a contract for that purpose to continue.

Representative Redwine stated that the practice of receiving 50% of pay plus retirement was referred to a "double-dipping." Chairman Barefoot stated that the provision would allow anyone who had a contract before September 1, 2002 to continue. Representative Starnes asked staff how many people were currently engaged in this practice. Mr. Moore stated that there was no way of knowing it, but approximately 600 did last year. Chairman Cox stated that he believed his office had received more mail in favor of the practice than on anything else this session.

Representative Tolson was recognized to ask a question. He stated that he was glad to see those who had already committed were being allowed to continue and that he thought it was a fair provision. Representative Starnes was recognized by the Chair. He stated that he was unable to locate where it stated specifically that people who had committed to a contract prior to the cut-off date had been grandfathered in. Mr. Moore pointed out the specific page and location. He then commented that he felt there was more concern about this than anything else ever done. He then asked Mr. Moore if the process had ever been challenged by the IRS. Mr. Moore stated the IRS is "numb" about the definition of termination of employment. But he stated there is a risk if the IRS does find the process in violation. An attorney with Buck Associates stated that in his opinion a three to six month separation would be appropriate. In a follow up question, Representative Starnes asked Mr. Moore why this had not been challenged in prior years.

Representative Hensley asked to whom this process applied. Mr. Moore stated that it applied to everyone, including teachers, state employees and employees of the General Assembly. Representative Starnes asked the Chair if this was the same situation

that had been addressed last year. Mr. Moore stated that was covered in the second provision.

Representative Redwine explained the second provision was an extension of the sunset that would expire in 2003 that allows teachers to return to the profession after a six-month retirement. The provision would move the sunset to 2004. This process would encourage teachers to stay in the industry, and is mutually exclusive from the first provision in that it addresses only teachers and not all state employees.

Chairman Cox then asked if this was a disincentive for teachers to return to work. Mr. Moore stated that it would actually encourage teachers to return after six months.

Representative Rogers moved that provision be approved. Representative Shubert then made the statement that this provision would fix what the Senate had failed to address.

Debra Bryan with the Retirement System was recognized to speak. She explained that the system had received a letter from their attorney stating that a six-month separation would be acceptable.

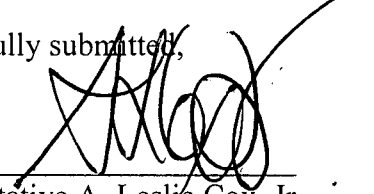
Representative Starnes requested to know why the change was being made this year. Representative Redwine stated that it was a policy change that wouldn't have been questioned had the Senate not eliminated the provision from the budget. Representative Tolson stated that he believed it was a fairness issue. Representative Starnes stated that he believed the statute should apply to all state employees.

Representative Tolson moved that the draft special provision be approved. The motion passed.

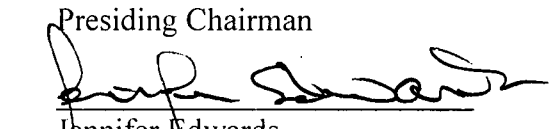
Chairman Barefoot stated that a special provision was before the Committee, S28.10. Mr. Moore was called to explain the provision. He explained it moved the sunset deadline so that teachers could return after six months. Representative Hensley moved for an approval by the Committee. The provision was approved.

There being no further business, Representative Cox adjourned the meeting.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman



Jennifer Edwards
Committee Assistant

Attachments

Draft Special Provision 28.10(b)
Draft Special Provision 28.13(a)

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

**Monday, August 5, 2002
Room 415 Legislative Office Building
Immediately following session**

REPRESENTATIVE A. LESLIE COX, Jr. CHAIRING

I. CALL TO ORDER

II. WELCOME

III. INTRODUCTIONS

IV. BILLS TO BE CONSIDERED:

SPECIAL PROVISIONS TO THE HOUSE BUDGET BILL

V. COMMENTS

VI. ADJOURN

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

DRAFT
SPECIAL PROVISION



2002-EMP-H12(S28.10)i

Employment, Salaries, and Benefits

1 **RETIRED TEACHERS RETURNING TO THE CLASSROOM WITHOUT LOSS**
2 **OF RETIREMENT BENEFITS/OPTION EXTENDED**

3 **SECTION 28.10.(a)** Subsection (d) of Section 28.24 of S.L. 1998-212 reads
4 as rewritten:

5 "(d) This section becomes effective January 1, 1999, and expires ~~June 30, 2003.~~
6 June 30, 2004."

7 **SECTION 28.10.(b)** The catch line to Section 67 of S.L. 1998-217 reads as
8 rewritten:

9 "SECTION 67. Effective January 1, 1999, through ~~June 30, 2003,~~ June 30, 2004,
10 G.S. 135-3(8)c., as rewritten by Section 28.24(a) of ~~Senate Bill 1366 of the 1997~~
11 ~~General Assembly, as enacted, S.L. 1998-212~~ reads as rewritten:"

12 **SECTION 28.10.(c)** Subsection (b) of Section 67.1 of S.L. 1998-217 reads
13 as rewritten:

14 "(b) This section becomes effective January 1, 1999, and expires ~~June 30, 2003.~~
15 June 30, 2004."

16 **SECTION 28.10.(d)** Subsection (c) of Section 32.25 of S.L. 2001-424 reads
17 as rewritten:

18 "SECTION 32.25.(c) This section becomes effective July 1, 2001, and expires
19 ~~June 30, 2003.~~ June 30, 2004."

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Special Provision to Committee Substitute for Senate Bill 1115

SHORT TITLE: Retired teachers returning to classroom with loss of retirement benefits

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Under the present law, a retiree is allowed to earn in any calendar year, 50% of the salary earned during the 12 months of service prior to retirement or \$23,600, whichever is greater. The present law removes all reemployment earnings restrictions for any retiree who returns as a teacher, who has not been employed in any capacity, other than as a substitute or part-time tutor, with a public school for the six months immediately preceding the date of reemployment.

This special provision will extend the sunset from June 30, 2003 to June 30, 2004.

EFFECTIVE DATE: Extends sunset to June 30, 2004.

ESTIMATED IMPACT ON STATE: The System's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, both estimate the cost to be 0.02% of the payroll of all members of the Teachers' and State Employee's Retirement System.

	2002-03	2003-04	2004-05	2005-06	2006-07
General Fund	\$1.5M	\$1.6M	\$1.7M	\$1.8M	\$1.9M
Highway Fund	\$.07M	\$.08M	\$.08M	\$.09M	\$.09M
Receipt Funds	<u>\$0.5M</u>	<u>\$0.5M</u>	<u>\$0.6M</u>	<u>\$0.6M</u>	<u>\$0.6M</u>
TOTAL COST	\$2.1M	\$2.2M	\$2.3M	\$2.5M	\$2.6M

There are actuarial gains within the System to fund this.

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, 2000 actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 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

Stanley Moore

APPROVED BY: James D. Johnson

DATE: August 2, 2002

**BUCK
CONSULTANTS®**

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

May 28, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1388

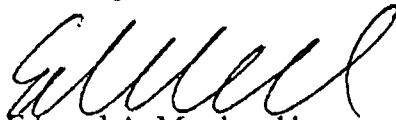
Re: Re-employment

Dear Michael:

As requested, we have determined the cost to the Teachers and State Employees Retirement System of extending the sunset date of the re-employment provisions (currently June 30, 2003) for one, two or three years. The cost of extending the sunset date is 0.02% per year.

If you have any questions, please call me at (770) 916-4113.

Sincerely,



Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

P:\North Carolina Teachers\2002\Documents\Correspondence\re-employment.doc

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 10, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Special Provision: Retired Teachers Returning to the
Classroom Without Loss Of Retirement Benefits / Option Extended

Dear Mr. Moore:

This provision would amend various sections of S.L. 1998-212, S.L. 1998-217, and S.L. 2001-424 to extend the expiration dates of certain teacher reemployment options from June 30, 2003 to June 30, 2004 in the Teachers' and State Employees' Retirement System (TSERS).

Currently, G.S. 135-3(8)c provides that if a member retires on an early or service retirement allowance and is later reemployed by an employer participating in the retirement system, his retirement benefit is reduced in any calendar year in which his earnings exceed the greater of 50% of his compensation prior to retirement or \$20,000, as indexed.

However, post-retirement earnings do not include amounts earned while employed to teach if the member was retired at least 6 months and had not been employed, except as a substitute teacher or a part-time tutor, with a public school during the 6 month period. This exclusion of earnings when reemployed to teach is set to expire June 30, 2003.

This provision would extend the expiration date one year to June 30, 2004. The impact of the earnings exclusion is a likely acceleration of retirement of teachers who could later return to work without losing retirement benefits. During the period of reemployment, neither employee nor employer contributions are made on behalf of the member. Retirement benefits would be payable for a longer period but at a lower rate than if the employee continued in active service. The net financial impact of extending this provision one year is an expected increase in costs to the TSERS of approximately 0.02% of payroll. This provides for amortization of additional accrued liabilities over a 9

year period.

This estimate is based on the most recent actuarial valuation prepared as of December 31, 2000, and data provided by you on TSERS members eligible to retire as of July 1, 2001. This data includes 4,047 certified teachers eligible for an unreduced retirement benefit.

If you have any questions, let me know.

Sincerely,

Mark Hartman

Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

approval
CD 2001

DRAFT
SPECIAL PROVISION



2002-EMP-H13(S28.13)

Employment, Salaries, and Benefits

***MODIFY BENEFIT RESTRICTIONS FOR REEMPLOYED RETIREES IN THE
TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM AND IN
THE LOCAL GOVERNMENTAL EMPLOYEES RETIREMENT SYSTEM***

SECTION 28.13.(a) G.S. 135-3(8)c. reads as rewritten:

"c. Should a beneficiary who retired on an early or service retirement allowance under this Chapter be reemployed, or otherwise engaged to perform services, by an employer participating in the Retirement System on a part-time, temporary, interim, or on a fee-for-service basis, whether contractual or otherwise, and if such beneficiary earns an amount during the 12-month period immediately following the effective date of retirement or in any calendar year which exceeds fifty percent (50%) of the reported compensation, excluding terminal payments, during the 12 months of service preceding the effective date of retirement, or twenty thousand dollars (\$20,000), whichever is greater, as hereinafter indexed, then the retirement allowance shall be suspended as of the first day of the month following the month in which the reemployment earnings exceed the amount above, for the balance of the calendar year. The retirement allowance of the beneficiary shall be reinstated as of January 1 of each year following suspension. The amount that may be earned before suspension shall be increased on January 1 of each year by the ratio of the Consumer Price Index to the Index one year earlier, calculated to the nearest tenth of a percent (1/10 of 1%).

The computation of postretirement earnings of a beneficiary under this sub-subdivision, G.S. 135-3(8)c., who has been retired at least six months and has not been employed in any capacity, except as a substitute teacher or a part-time tutor, with a public school for at least six months immediately preceding the effective date of reemployment, shall not include earnings while the beneficiary is employed to teach on a substitute, interim, or permanent basis in a public school. The Department of Public Instruction shall certify to the Retirement System that a beneficiary is employed to teach by a local school

1 administrative unit under the provisions of this sub-subdivision
2 and as a retired teacher as the term is defined under the
3 provisions of G.S. 115C-325(a)(5a).

4 Beneficiaries employed under this sub-subdivision are not
5 entitled to any benefits otherwise provided under this Chapter
6 as a result of this period of employment."

7 **SECTION 28.13.(b)** G.S. 128-24(5)c. reads as rewritten:

8 "c. Should a beneficiary who retired on an early or service
9 retirement allowance be reemployed, or otherwise engaged to
10 perform services, by an employer participating in the
11 Retirement System on a part-time, temporary, interim, or on
12 fee-for-service basis, whether contractual or otherwise, and if
13 such beneficiary earns an amount during the 12-month period
14 immediately following the effective date of retirement or in any
15 calendar year which exceeds fifty percent (50%) of the reported
16 compensation, excluding terminal payments, during the 12
17 months of service preceding the effective date of retirement, or
18 twenty thousand dollars (\$20,000), whichever is greater, as
19 hereinafter indexed, then the retirement allowance shall be
20 suspended as of the first day of the month following the month
21 in which the reemployment earnings exceed the amount above,
22 for the balance of the calendar year. The retirement allowance
23 of the beneficiary shall be reinstated as of January 1 of each
24 year following suspension. The amount that may be earned
25 before suspension shall be increased on January 1 of each year
26 by the ratio of the Consumer Price Index to the Index one year
27 earlier, calculated to the nearest tenth of a percent (1/10 of
28 1%)."

29 **SECTION 28.13.(c)** This section does not apply during the 2002-2003 fiscal
30 year to any person who prior to September 1, 2002, entered into an employment
31 contract or commitment for some or all of that year.

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Special Provision to Committee Substitute for Senate Bill 1115

SHORT TITLE: Modify benefit restrictions for reemployed retirees of the Teacher's & State Employees' Retirement System and Local Governmental Employees' Retirement System

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System and Local Governmental Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: Under the present law, a retiree is allowed to be reemployed with a State employer participating in the retirement system and earn in any calendar year, 50% of the salary earned during the 12 months of service prior to retirement or \$23,600, whichever is greater. This will also apply the earning test of 50% of salary on the income earned with a State employer participating in the retirement system during the 12 months immediately following retirement.

Will apply the same earning test to retired local governmental employees who are reemployed with a unit of local government.

EFFECTIVE DATE: July 1, 2002 but does not apply during the 2002-03 fiscal year to any person who prior to September 1, 2002 entered into an employment contract for some or all of the year.

ESTIMATED IMPACT ON STATE: Both the Fund's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that there could be some small savings but it would be negligible.

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, 2000 actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

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, 2000 actuarial valuation of the fund. The data included 116,240 active members with an annual payroll of \$3.34 billion and 30,061 retired members in receipt of annual pensions totaling \$356.8 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 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 *Stanley Moore*

APPROVED BY: James D. Johnson

DATE: August 2, 2002

BUCK CONSULTANTS

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

June 10, 2002

Mr. Michael Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

Re: Actuarial Note/Proposed Legislation

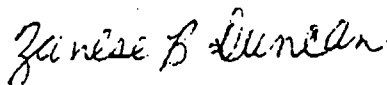
Dear Michael:

As requested, we have examined the impact on the Teachers and State Employees Retirement System of a June 7, 2002 request. This legislation appears to amend the statutes governing the amount a reemployed beneficiary may earn without affecting his retirement allowance. Currently, a beneficiary reemployed on a part-time, temporary, interim, or on a fee-for-service basis is permitted to earn, in any calendar year, the higher of fifty percent of the reported compensation, excluding terminal payments, during the 12 months of service preceding the effective date of retirement or \$20,000 (inflated to \$23,600 for 2002). The proposed amendment appears to also impose this limitation on the 12 month period immediately following the effective date of retirement.

The impact of this proposal to the System will be negligible.

If you have any questions, please call me at (770) 916-4107.

Sincerely,



Zanese B. Duncan, ASA, EA
Associate Principal, Consulting Actuary

ZBD:cj

P:\North Carolina Teachers\2002\Documents\Correspondence\Actuarial Note (June 7).doc

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

June 10, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Senate Special Provision: Modify Benefit Restrictions for
Reemployed Retirees in the TSERS and LGERS

Dear Mr. Moore:

This provision would amend G.S. 128-24(5)c and G.S.135-3(8)c to modify the earnings limitations for reemployment in the Teachers' and State Employees' Retirement System (TSERS) and in the Local Governmental Employees' Retirement System (LGERS).

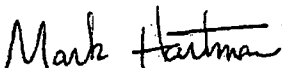
Currently, if a member in either system retires on an early or service retirement allowance and is later reemployed by an employer participating in the retirement systems, his retirement benefit is reduced in any calendar year in which his earnings exceed the greater of 50% of his compensation prior to retirement or \$20,000, as indexed. This provision would apply the earnings limitation to the 12 month period immediately following retirement, in addition to the current calendar year test.

This provision may generate some cost savings, but it is not expected to have a significant financial impact on either system.

This estimate is based on the most recent actuarial valuations prepared as of December 31, 2000.

If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

August 5, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Josh Mottage	Gov OFFICE
Kathy Hottel	NC State Watch
Debra Bryan	N.C. Treasurer
Jim Huggs	SBE
Lee Shubert	
Ardis White	SEANC
Laura Harper	SEANC
Boyd Canble	City of Charlotte

August 5
Desktop Meeting
(Jennifer)

AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**Wednesday, August 14, 2002
Room 415, Legislative Office Building
10:00 A.M.**

OPENING REMARKS

**Representative Dan Barefoot, Presiding
Pensions and Retirement Committee**

AGENDA ITEMS

**SB 1219 GASTONIA POLICEMEN'S RETIREMENT
Senator David Hoyle, Sponsor**

ADJOURNMENT

HOUSE PENSIONS AND RETIREMENT COMMITTEE

August 14, 2002

Minutes

The House Committee on Pensions and Retirement met on Wednesday, August 14, 2002 in Room 415 of the Legislative Office Building at 10:00 A.M. The following members were present: Representatives Barefoot and Cox; Co-Chairs; Representative McCombs, Vice-Chair; and Representatives Barbee, Rogers, Shubert, and Yongue. Stanley Moore, Fiscal Research, Theresa Matula and Karen Cochrane-Brown, Staff Counselors, were in attendance. A Visitor Registration list is attached and made part of these minutes.

Representative Barefoot called the meeting to order and introduced the Pages serving the Committee: Crystal Sanders of Johnston County, sponsored by Representative Billy Creech; Monica Hodges, of Wake County, sponsored by Representative Russell Capps; and Chris Goad of Wake County, sponsored by Representative Sam Ellis

Senate Bill 1219- AN ACT TO PROVIDE FOR THE DISSOLUTION OF THE GASTONIA POLICEMEN'S SUPPLEMENTARY PENSION FUND was the bill before the committee. A copy of the bill, actuarial note, and bill summary are attached and made part of these minutes.

The chairman explained that the bill's sponsor, Senator Hoyle, had another commitment and was unable to attend the meeting.

Representative John Rayfield was recognized to explain the bill. He pointed out the City of Gastonia and the policemen of Gastonia entered into an agreement, and in 1996 the policemen started contributing to a local policemen fund at 2% of their salary. Also, the city of Gastonia contributed in part \$20,000 annually, which is not necessarily a requirement but one that is funded each year. The fund quite simply is running out of money. The statute states that a person that retires is guaranteed for life a pension from this local fund unless the fund is depleted and there are no funds available. In approximately four or five years, this fund will be depleted. Approximately 154 policemen are still contributing to this fund, knowing when it comes time for their retirement the funds will not be available. He stated that at a recent meeting with a representative of the City of Gastonia and a representative of the Police Department of Gastonia there was a concern that, based on the way this program was written in the statutes, if they end this program there is a possibility that someone could sue. He added that the Gaston delegation is in agreement that we should discontinue this local policemen retirement fund.

A general discussion was held and some of the points they brought up were:

Karen Cochrane-Brown noted that, if Gastonia were challenged, there is a possibility that the court would find that they had violated the constitutional rights of the vested members and could require Gastonia to honor the contractual obligation.

Stanley Moore noted that City of Gastonia in 2001 had an actuary involved for the first time. And with assets of \$1.2 million now and liabilities of four million greater than the City of Gastonia has been putting (\$20,000) into the plan, is not anywhere near the required

amount to fund it on an actuarial basis. He added that this is why they are going to run out of money - because it had not been funded.

Representative. Rayfield pointed out that the City of Gastonia, the Gastonia delegation, and the majority of the policemen are in favor of discontinuing this fund.

Representative McComas questioned if it comes to a lawsuit, if the City of Gastonia is ready to go to court. Representative Rayfield replied the City realizes that it is not a reality, but a possibility, and the City is ready to defend its position.

Representative Rayfield questioned, "Are we being fair to all the people involved, are we being fair to the retirees, or are we being fair to those people presently employed that are contributing dollars, 154 of them, knowing they'll get no benefits in the next five years"?

Representative Rogers inquired if the City of Gastonia considered discontinuing the contributions and, even more, to make the fund viable rather than risking a lawsuit?

The Chairman asked Stanley Moore to give a fiscal analysis of the liabilities vs the assets.

Stanley Moore explained that this would give an idea of the amount the city would have to contribute on its own if they could make it viable. Most of the active police officers, ones who having the money deducted from their checks, want to get out from under the plan. . He pointed out there were two or three ways it could be resolved. There are several ways you could do this. Of course the retirees wouldn't want to do that, or if you are fixing to retire you would want to stay in the plan. (1) One solution is to draw a line - anybody that comes in, as an employee after this date, does not participate. Then they could say, "let's draw up a form and let everybody make an election whether they want to participate. If you don't want to participate, you get your money back." (2) Then the only ones you would have in a pot, supposedly, would be the long-term employees and the retirees. If the City of Gastonia continued to fund the plan, then you would be 30 or 40 years out down the road somewhere as they all died off, the plan would just go away. The problem comes in that the City of Gastonia, while they've been putting \$20,000.00 into the plan, finally when they have an actuarial evaluation done, they are going to have to put in close to a half-million a year to keep it viable. So, all this time, the City of Gastonia has totally ignored its obligation to fund the plan.

A considerable discussion followed.

Representative Schubert stated said she felt there was not enough information to know what's going on.

Representative Rayfield said that technically the statute states "guaranteed for life or until the fund is depleted." So, it indicates that if continued everyone will lose.

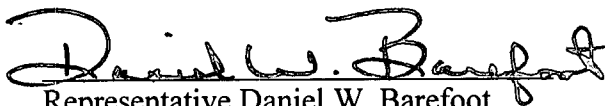
Representative. Barbee suggested to "Get the people to sign a document they would be willing to go along with this because, if the funds run out, it looks like they would never get any more. The only thing I don't want us to do is have the state involved in a lawsuit."

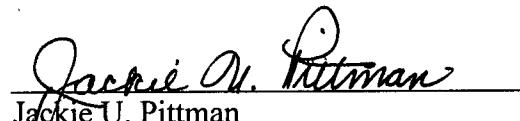
Representative Rayfield requested, as a courtesy to the sponsor, to displace the bill until one of the sponsors could attend and offer their input.

Representative Rayfield agreed to arrange for representatives of the City of Gastonia and Gastonia Police Department to be present at the next meeting.

There being no further business, the Chair adjourned the meeting at 10:45 A.M.

Respectfully submitted,


Representative Daniel W. Barefoot
Chair Presiding


Jackie U. Pittman
Committee Assistant

Attachments:
Visitors Sheet
Senate Bill 1219
Actuarial Note
Bill Summary

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

August 14, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Joanne Scharer

Treasurer - Retirement

Michael Williams

"

"

Rob Ausubon

NIC STATE WATCH

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 2001

S

2

SENATE BILL 1219

Pensions and Retirement and Aging Committee Substitute Adopted 7/24/02

Short Title: Gastonia Policemen's Retirement.

(Local)

Sponsors:

Referred to:

June 6, 2002

A BILL TO BE ENTITLED

AN ACT TO PROVIDE FOR THE DISSOLUTION OF THE GASTONIA
POLICEMEN'S SUPPLEMENTARY PENSION FUND.

The General Assembly of North Carolina enacts:

SECTION 1. Section 8.2 of Article VIII of the Charter of the City of
Gastonia, being Chapter 557 of the 1991 Session Laws, as amended by S.L. 1997-161,
reads as rewritten:

"Sec. 8.2. **Gastonia Policemen's Supplemental Retirement Fund.** The Gastonia
Policemen's Supplemental Retirement Fund shall continue Fund, as authorized by
Chapter 946, Session Laws of 1955, as amended by Chapter 112, Session Laws of 1957;
Chapter 301, Session Laws of 1959; Chapter 198, Session Laws of 1965; Chapter 979,
Session Laws of 1965; and Chapter 809, Session Laws of 1983. The Gastonia
Policemen's Supplemental Retirement Fund is not subject to Article 3 of Chapter 159 of
the General Statutes, 1983, is repealed and the Board of Trustees shall dissolve the Fund
in the following manner;

- (1) The two percent (2%) payroll contribution being made by eligible employees will be stopped;
- (2) The Fund shall refund contributions made by employees in full;
- (3) The Fund shall pay earnings on the refund of employee contributions at the rate of four percent (4%) per annum to employees who have not been refunded their employee contributions on July 1, 2002; and
- (4) The Fund shall distribute any remaining assets to employees who are vested in the Fund as of July 1, 2002, in amounts as determined by an actuary chosen by the Board. The actuary shall base the calculation of these amounts payable to vested employees and employees receiving benefits based upon actuarial assumptions established by the Board at the recommendation of the actuary. For purposes of this section, any employee is vested who has at least 15 years of service credited under

1 the Fund or 10 years or more service credited under the Fund if
2 disabled.

3 No person shall be permitted to become part of this Fund on or after July 1, 2002."

4 **SECTION 2.** This act becomes effective July 1, 2002.



**North Carolina General Assembly
Legislative Services Office**

George R. Hall, Legislative Services Officer
(919) 733-7044

Thomas J. Goldman, Director
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Room 9, Legislative Building
16 W. Jones Street
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Research Division
Suite 545, LOB
300 N. Salisbury St.
Raleigh, NC 27603-5925
(919) 733-2578

July 23, 2002

MEMORANDUM

TO: Senator David Hoyle

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note Senate Bill 1219

Re: Repeal Gastonia Policemen's Supplemental Retirement Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Senate Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Aon Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Committee Substitute for Senate Bill 1219

SHORT TITLE: Gastonia Policemen's Retirement

SYSTEM OR PROGRAM AFFECTED: Gastonia Policemen's Supplemental Retirement Fund

FUNDS AFFECTED: City of Gastonia

BILL SUMMARY: Under the present law, all policemen of the City of Gastonia are members of the System. Each employee pays 2% of salary to fund and investment earnings on these contributions are used to pay benefits. The retirement benefit is 2% of average monthly salary for each 5 years of service or portion thereof, not to exceed 14% of salary, and is paid for life.

The bill will dissolve the Gastonia Policemen's Supplemental Retirement Fund and allow all assets of the System to be paid as follows: (1) all employees will receive a refund of their contributions in full, (2) all employees will receive 4% interest per annum on their contributions, (3) the balance of the assets are to be distributed to all those vested employees and retirees in amounts to be determined by an actuary using the assumptions adopted by the board.

EFFECTIVE DATE: July 1, 2002

SOURCES OF DATA:

System Actuary – Aon Consulting


General Assembly Actuary - Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: In *Bailey v. State of North Carolina*, the Supreme Court established that the relationship between a public Retirement System and its employees who have vested in the system is contractual in nature, and that the benefits of the contract cannot be diminished or impaired without violating the Contract Clause of the federal constitution. By electing to discontinue funding of the Gastonia Policemen's Supplementary Pension Fund in 1983, and dissolving the Fund as proposed in this bill, it appears the City of Gastonia may impair the contractual rights of all of the vested and retired members of the Fund. If challenged, the City could be found to have violated the constitutional rights of its vested members and required by the court to honor its contractual obligation.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson



DATE: July 23, 2002



Aon Consulting

*Employee Benefits
Consulting Group*

July 19, 2002

Mr. Stanley Moore
Fiscal Research Division
The General Assembly of North Carolina
300 North Salisbury St.
LOB- Room 619
Raleigh, NC 27603

Re: Actuarial Notes for Proposed Section 8.2 of Article VIII of the Charter of the City of Gastonia (Gastonia Policemen's Supplementary Pension Fund Act)

Dear Mr. Moore:

The purpose of this letter is to discuss the actuarial implications of the proposed statutory change noted above.

This proposed regulation consist of four points as discussed below:

- 1) The 2% payroll contribution being made by eligible employees will be stopped – this will avoid additional future liability to the Policemen's Supplementary Pension Fund resulting from such future employee contributions.
- 2) The Fund will refund contributions made by employees in full – the Fund currently provides a refund of employee contributions at cessation of employment; therefore, this provision merely serves to reimburse all current participants for any money they have contributed to the plan. Since retirees have already received a refund of such contributions, this provision (and point 3 below) will only apply to those vested employees in the Fund that are not currently in pay status. While the exact amount cannot be computed at this time, it is anticipated that such employee contribution refunds will constitute approximately 50% of current plan assets.
- 3) The Fund will pay earnings on the refund of employee contributions at the rate of 4% per annum for employees who have not been refunded their employee contributions on the effective date of this Act – this point essentially treats the refund of employee contributions for vested participants in the same manner as under the State plan. Even though the current

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*Employee Benefits
Consulting Group*

Mr. Stanley Moore
July 19, 2002
Page 2

statute does not require interest to be paid on employee contributions, this point is considered to be an equitable arrangement since such vested employees would only receive a portion of the value of their ultimate retirement benefits under this proposed legislation (see step 4 below). While an exact determination cannot be made at this date, it is the opinion of the actuary that this provision will constitute a payment of approximately 10% to 20% of plan assets.

- 4) The Fund will distribute any remaining assets to employees who are vested in the Fund as of the date of the ratification of this Act and to retirees who are receiving benefits as of the date of the ratification of this Act in amounts as determined by an actuary chosen by the board. The actuary shall base the calculation of such amounts payable to vested employees and employees receiving benefits based on such actuarial assumptions as shall be established by the Board at the recommendation of the actuary. For purposes of this Act, an employee is vested who has at least 15 years of service credited under the fund or 10 or more years of service credited under the fund if disabled (and not in pay status as a retired employee) –This point provides an actuarial basis for distributing remaining plan assets (after the refund of employee contributions with interest) to all retired and vested participants in an equitable manner. The procedure for distributing remaining assets is summarized below:
 - (a) The benefit earned to date for all vested policemen will be computed using the plan benefit formula as set forth in the statute based on their years of service and average compensation as of the date of the ratification of this Act; the benefit earned to date for policemen in pay status is the benefit they are currently receiving.
 - (b) The actuarial present value of such benefit payable for each retired and vested policeman will be determined by the plan actuary (using actuarial assumptions as established by the Board at the recommendation of the actuary).
 - (c) The total actuarial present value of all benefits shall be determined by summing the individual present values for each of the retired and vested policemen in the Fund as of the date of the ratification of this Act.

Aon Consulting

*Employee Benefits
Consulting Group*

Mr. Stanley Moore
July 19, 2002
Page 3

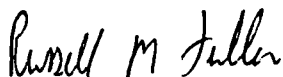
- (d) Each retired and vested policemen's "share" of the remaining assets will be determined on a prorata basis comparing the individual's actuarial present value to the total actuarial present value of all eligible participants.

Example:

The actuarial present value of future benefits for Policeman A is \$25,000.
The actuarial present value of all benefits is \$2,500,000
Therefore, Policeman A would get 1% (\$25,000 divided by \$2.5 million) of the remaining assets.
So, if the remaining assets were \$500,000, Policeman A would receive a distribution of \$5,000 under this section of the regulations.

If there are any questions on any points made in this letter, I can be reached at 919-786-6263.

Respectfully Submitted,



Russell M. Fuller, F.S.A., M.A.A.A., E.A.

Cc: Chief Rodney Parham
Mr. Steve Gambill
Mr. Richard Rogers

RMF/liw

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

July 11, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed Committee Substitute to Senate Bill 1219: An Act to
Provide for the Dissolution of the Gastonia Policemen's
Supplementary Pension Fund

Dear Mr. Moore:

This proposed committee substitute amends Section 8.2 of Article VIII of the Charter of the City of Gastonia to provide for the dissolution of the Gastonia Policemen's Supplementary Pension Fund. This Fund covers all full time members of the Gastonia Police Department or Board of Trustees. The Fund provides a retirement benefit of 2% of average monthly salary for each five years of service at retirement under the Local Governmental Employee's Retirement System and completion of 15 years of service with the City. The employees contribute 2% of their pay to the Fund.

This proposal would dissolve the Fund by ceasing all employee payroll contributions, refunding accumulated employee contributions, and distributing the remaining assets to current retirees and vested employees. An employee is vested after 15 years of credited service under the Fund or 10 years of service if disabled. This proposal is effective July 1, 2002.

Based on the actuarial study performed by Aon Consulting as of May 1, 2001, this plan is significantly underfunded. That study computed the value of benefits earned to date for retirees and active employees as \$3.9 million compared to assets of \$1.2 million. The study also indicated that the assets are not sufficient to purchase annuities for current members receiving benefits. The asset value would be sufficient to provide the refund of accumulated employee contributions under this proposal, but both currently retired and active plan members would receive

Mr. Stanley Moore
July 12, 2002

Page 2

only a fraction of their total accrued benefits. This result appears consistent with plan provisions which reduce or eliminate benefits when assets are insufficient. However, this may produce legal ramifications due to the loss of benefits. These are beyond the scope of this note.

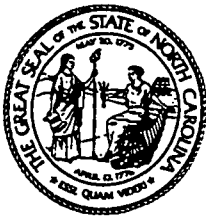
If you have any questions, let me know.

Sincerely,

Mark Hartman

Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt



SENATE BILL 1219: Gastonia Policemen's Retirement

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: August 14, 2002
Version: Second Edition

Introduced by: Sen. Hoyle
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *Senate Bill 1219 provides for the dissolution of the Gastonia Policemen's Supplementary Pension Fund by refunding employee contributions with 4% interest to all active employees and by distributing the remaining assets to all vested employees and beneficiaries as recommended by the Fund's actuary.*

CURRENT LAW:

The Gastonia Policemen's Supplementary Pension Fund was established by Chapter 946 of the Laws of 1955. The Act provided that any full-time paid member of the Police Department who retired with at least 20 years of service and was at least 55 years of age would receive a monthly benefit for the remainder of the member's life in an amount equal to 2% for each five years of service up to a maximum of 14% of his average monthly salary for the three highest years of service with the City. The Act created a Board of Trustees to administer the Fund to be composed of the Chief of Police, the Assistant Chief of Police, and the Accountant (Finance Officer) of the City. Funding for the benefits would come from a portion of the Municipal Court costs in criminal cases, not to exceed one dollar per case. The original Act contained a provision authorizing the City Council of Gastonia to abolish the Fund at any time and transfer any funds held by the Pension Fund to the general fund of the City. However, this provision was repealed in 1957.

In 1959, the Board of Trustees was authorized to establish a 2% employee contribution to help fund the benefits after an affirmative vote of the members. In addition, the phrase "so long as funds are available" was added to the provision defining the benefit to which eligible members would be entitled.

In 1965, the amount of Municipal Court costs dedicated to the Fund was increased from one dollar to three dollars per case. Later in 1965, the law governing the Fund was amended to redirect the three-dollar court costs from the Fund to the State Law Enforcement Officers' Benefit and Retirement Fund. In return, the City was authorized to make contributions to the Fund from the General Fund, as it deemed appropriate. In addition, the City was authorized to deduct the 2% employee contribution from the gross salary of each member.

In 1983, the law was amended to repeal the provision redirecting the court costs to the State Law Enforcement Officers' Retirement Fund.

BILL ANALYSIS:

This bill proposes to dissolve the Gastonia Policemen's Supplemental Retirement Fund in the following manner:

- No new members effective July 1, 2002, and all employee contributions will be stopped.
- The Fund will refund all employee contributions and pay interest at the rate of 4% per annum.

SENATE BILL 1219

Page 2

- The Fund will distribute any remaining assets to vested employees and beneficiaries in amounts as determined by the Fund's actuary.

For purposes of this act, any employee is vested who has at least 15 years of service, or 10 years or more, if the employee is disabled.

It appears that in dissolving the Fund in this manner the City of Gastonia proposes to pay vested members of the Policemen's Supplemental Pension Fund amounts less than the benefit that they had been promised throughout their career with the Police Department. Inasmuch as the Fund has been in existence since 1955, it is likely that all of the current and retired members were induced to continue employment with the City, at least in part, by the promise of the supplemental pension benefit. In fact, the Gastonia Police Department Employment website currently contains a reference to the supplemental pension fund as one of the retirement benefits offered to employees.

In *Bailey v State of North Carolina*, the Supreme Court established that the relationship between a public Retirement System and its employees who have vested in the system is contractual in nature, and that the benefits of the contract cannot be diminished or impaired without violating the Contract Clause of the federal constitution. By electing to discontinue funding of the Gastonia Policemen's Supplemental Pension Fund, and dissolving the Fund as proposed in this bill, it appears that the City of Gastonia may impair the contractual rights of all of the vested and retired members of the Fund. If challenged, the City could be found to have violated the constitutional rights of its vested members and required by the court to honor its contractual obligation.

The act would become effective July 1, 2002.

MINUTES
HOUSE COMMITTEE ON PENSIONS AND RETIREMENT
August 21, 2002

The House Committee on PENSIONS AND RETIREMENT met on Wednesday, August 21, 2002 at 10:00 am in Room 415 of the Legislative Office Building. In attendance were Representatives Barefoot and Cox, co-chairs for the committee. Members of the Committee in attendance were Representative McCombs, Vice Chair, and Representatives Barbee, Hensley, Oldham, Rogers, Shubert, Starnes, Tolson, Gene Wilson and Yongue. The Visitor Registration sheet is attached. Other attachments are listed and have been made a part of the minutes.

Representative Cox called the meeting to order.

SENATE BILL 1219, Gastonia Policemen's Retirement, was before the committee for consideration. Representative Rayfield was called to explain the bill. Representative Rayfield stated that he believed he had said everything that was needed in the previous meeting. He then asked that anyone wishing to speak be allowed to do so. Senator Hoyle gave a history of the bill and expressed concern about continued liability of the City. He then explained how the local bill could be heard during the Short Session with complete agreement by the delegation.

Mr. Rodney Parham, Chief of the Gastonia Police Department, was asked to speak on behalf of the department. He asked that the bill be passed as written. He explained that those who contributed to the fund be refunded in full. Currently, 170 police officers give to the plan via payroll deduction, and \$168,000 is paid out yearly in benefits. However, the plan is losing \$100,000 per year because of interest rates.

Chairman Cox asked for further comments from the audience. Major Dennis Crosby, retired member of the Gastonia Police Department, was called. His handwritten remarks are attached and have been made of part of the minutes. He stated that he represented a small group of 50 retired officers. He then stated that one of the deciding factors for taking the position with the department was the retirement fund, and that the benefit is still listed in the employee brochure. He then quoted *Bailey v. State of North Carolina* to accentuate his position that dissolution of the fund was illegal: "A public employee has a right to expect that retirement rights bargained for in exchange for his loyalty and continued services, and continually promised him over many years, will not be removed or diminished...." According to Major Crosby, he and other retirees first heard of problems with the fund in spring 2002; however, he and other retired officers have not been included in discussions regarding the fund and disposing of the fund will adversely affect their lives.

Chairman Cox asked that a current member of the police department speak in favor of the bill. Sergeant Jeff Dobbins of the patrol division spoke. His typed remarks

are attached and have been made of part of the minutes. He stated he believed the committee had three options: Do nothing, stop current payroll deduction and return the funds, or dismantle the pension fund. His preferred course of action would be the third option, dismantle the pension fund because everyone would benefit in some manner.

Chairman Cox asked that a current member or another retiree of police department who is against the bill speak. Mr. Jack Postell, retired chief of the department, stood to speak. His typed remarks are attached and have been made of part of the minutes. He spoke verbatim from his notes, and stated that he believed dissolution of the fund was not fair to the retirees and their families for several reasons, the main being that the City did not contribute to Social Security on behalf of the officers who participated in the fund.

Chairman Cox then asked that an elected official from Gastonia come forward to speak. None being present, Chairman Cox opened the floor to questions from the committee. Senator Hoyle stated that on behalf of the delegation he would like to apologize because he and the other members were in the middle and were obligated to bring forth the bill because it had been submitted by a unanimous vote of the Gastonia City Council. He also stated that although he had brought forth the bill, he and other members of the delegation believed the bill could open the State to a lawsuit. He also stated that he wished he had been able to hold a meeting between the two parties prior to the committee meeting. Representative Hensley was then recognized to speak. He stated that he believed he had two reasons that allowed him to speak on the bill. The first being that he always put forth a bill for 25 year retirement police officers and the second because he was reared in Gastonia. He then referred to the "Employment at Will" statute of North Carolina employment law, which states that anything in writing must be honored including retirement benefits. He believed that if this bill were to pass, it would set a precedent prompting other municipalities to follow suit. Further, he believes that the State would not be able to win a lawsuit. He closed by stating he was against the bill and hoped it would not pass the committee.

Representative Yongue was recognized to speak. He stated that it was a shock to him that no Social Security was provided and asked Mr. Postoll if health insurance had been provided to retirees. Mr. Postoll stated that they received health insurance until the age of 62 and would receive Medicare after that provided they had contributed to Social Security, which they had not. Representative Rogers was recognized to ask a question and stated that he was concerned the bill's passage would lead to a lawsuit, and he would not vote for it unless something could be crafted to alleviate the State's responsibility.

Representative Starnes was recognized to ask a question of Mr. Stanley Moore. He asked if the State's statutes allowed pension plans to be under-funded. Mr. Moore responded that he was unaware of any laws that would govern this type of plan, and he was further unaware of any other plan like this one in the State where there is no steady flow of cash to fund the plan. According to the actuarial report, \$1.5 million would be needed to fully fund the plan and keep it operational; however, only \$20,000 is currently

being added. In a follow up question, Representative Starnes asked Mr. Moore if there were State laws requiring actuarial plans to discover if a plan is properly funded.

Chairman Cox then interrupted and stated that it was the Chair's prerogative to decide whether a vote would be called and at this point, no vote would be called. He called for further comments from Representative Harrington, a member of the Gastonia delegation. Representative Harrington stated that he agreed with Senator Hoyle that they had been put in a situation to attempt to solve a very unusual situation, and if there were any way to eliminate the problem without any negative impact he would welcome it.

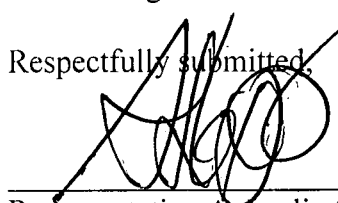
Chairman Cox then stated that he felt the Legislature would be in session several more weeks and it would be best if the City of Gastonia and the police officers worked out the problem amongst themselves. He admonished the groups not to bring their problems to Raleigh for the Legislature to referee. Representative Shubert was recognized to make a comment. She stated that she felt it would be in the State's best interest to ensure there are no other pension plans such as the Gastonia plan in existence so as to avoid further embarrassment of the State and the possibility of a lawsuit.

Chairman Cox recognized Representative Rayfield to make a comment. He stated this was a situation that he preferred not to be in, but was obligated to bring forth the bill because of the unanimous decision by the Gastonia City Council. He then told the group he felt a lack of communication had been the major problem with the handling of the situation. Chairman Cox recognized Chief Parham to make a final comment. He stated that he appreciated the committee hearing the bill, but felt that there was no way for the fund to continue. Further, officers who are currently contributing 2% of their salaries to the fund would not reap any benefit from it in the upcoming years. As of this date, no one had stepped forward to fund the plan.

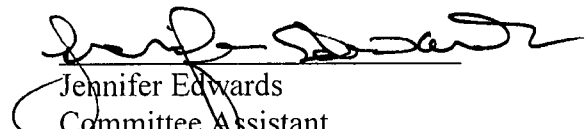
Chairman Cox then asked the committee to expect another meeting on the bill.

There being no further business, Representative Cox adjourned the meeting.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman



Jennifer Edwards
Committee Assistant

Attachments

Senate Bill 1219

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

**Wednesday, August 21, 2002
Room 415 Legislative Office Building
10:00 am**

REPRESENTATIVE A. LESLIE COX, Jr. CHAIRING

- I. CALL TO ORDER
- II. WELCOME
- III. INTRODUCTIONS
- IV. BILLS TO BE CONSIDERED:

SB 1219 GASTONIA POLICEMEN'S RETIREMENT
Sponsored by Senator David Hoyle
- V. COMMENTS
- VI. ADJOURN

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 1219
Pensions and Retirement and Aging Committee Substitute Adopted 7/24/02

Short Title: Gastonia Policemen's Retirement.

(Local)

Sponsors:

Referred to:

June 6, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO PROVIDE FOR THE DISSOLUTION OF THE GASTONIA
3 POLICEMEN'S SUPPLEMENTARY PENSION FUND.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. Section 8.2 of Article VIII of the Charter of the City of
6 Gastonia, being Chapter 557 of the 1991 Session Laws, as amended by S.L. 1997-161,
7 reads as rewritten:

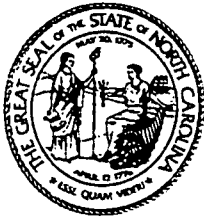
8 "Sec. 8.2. **Gastonia Policemen's Supplemental Retirement Fund.** The Gastonia
9 Policemen's Supplemental Retirement Fund ~~shall continue~~ Fund, as authorized by
10 Chapter 946, Session Laws of 1955, as amended by Chapter 112, Session Laws of 1957;
11 Chapter 301, Session Laws of 1959; Chapter 198, Session Laws of 1965; Chapter 979,
12 Session Laws of 1965; and Chapter 809, Session Laws of 1983. ~~The Gastonia~~
13 ~~Policemen's Supplemental Retirement Fund is not subject to Article 3 of Chapter 159 of~~
14 ~~the General Statutes 1983, is repealed and the Board of Trustees shall dissolve the Fund~~
15 in the following manner:

- 16 (1) The two percent (2%) payroll contribution being made by eligible
17 employees will be stopped;
18 (2) The Fund shall refund contributions made by employees in full;
19 (3) The Fund shall pay earnings on the refund of employee contributions
20 at the rate of four percent (4%) per annum to employees who have not
21 been refunded their employee contributions on July 1, 2002; and
22 (4) The Fund shall distribute any remaining assets to employees who are
23 vested in the Fund as of July 1, 2002, in amounts as determined by an
24 actuary chosen by the Board. The actuary shall base the calculation of
25 these amounts payable to vested employees and employees receiving
26 benefits based upon actuarial assumptions established by the Board at
27 the recommendation of the actuary. For purposes of this section, any
28 employee is vested who has at least 15 years of service credited under

1 the Fund or 10 years or more service credited under the Fund if
2 disabled.

3 No person shall be permitted to become part of this Fund on or after July 1, 2002."

4 **SECTION 2.** This act becomes effective July 1, 2002.



SENATE BILL 1219: Gastonia Policemen's Retirement

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: August 14, 2002
Version: Second Edition

Introduced by: Sen. Hoyle
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *Senate Bill 1219 provides for the dissolution of the Gastonia Policemen's Supplementary Pension Fund by refunding employee contributions with 4% interest to all active employees and by distributing the remaining assets to all vested employees and beneficiaries as recommended by the Fund's actuary.*

CURRENT LAW:

The Gastonia Policemen's Supplementary Pension Fund was established by Chapter 946 of the Laws of 1955. The Act provided that any full-time paid member of the Police Department who retired with at least 20 years of service and was at least 55 years of age would receive a monthly benefit for the remainder of the member's life in an amount equal to 2% for each five years of service up to a maximum of 14% of his average monthly salary for the three highest years of service with the City. The Act created a Board of Trustees to administer the Fund to be composed of the Chief of Police, the Assistant Chief of Police, and the Accountant (Finance Officer) of the City. Funding for the benefits would come from a portion of the Municipal Court costs in criminal cases, not to exceed one dollar per case. The original Act contained a provision authorizing the City Council of Gastonia to abolish the Fund at any time and transfer any funds held by the Pension Fund to the general fund of the City. However, this provision was repealed in 1957.

In 1959, the Board of Trustees was authorized to establish a 2% employee contribution to help fund the benefits after an affirmative vote of the members. In addition, the phrase "so long as funds are available" was added to the provision defining the benefit to which eligible members would be entitled.

In 1965, the amount of Municipal Court costs dedicated to the Fund was increased from one dollar to three dollars per case. Later in 1965, the law governing the Fund was amended to redirect the three-dollar court costs from the Fund to the State Law Enforcement Officers' Benefit and Retirement Fund. In return, the City was authorized to make contributions to the Fund from the General Fund, as it deemed appropriate. In addition, the City was authorized to deduct the 2% employee contribution from the gross salary of each member.

In 1983, the law was amended to repeal the provision redirecting the court costs to the State Law Enforcement Officers' Retirement Fund.

BILL ANALYSIS:

This bill proposes to dissolve the Gastonia Policemen's Supplemental Retirement Fund in the following manner:

- No new members effective July 1, 2002, and all employee contributions will be stopped.
- The Fund will refund all employee contributions and pay interest at the rate of 4% per annum.

SENATE BILL 1219

Page 2

- The Fund will distribute any remaining assets to vested employees and beneficiaries in amounts as determined by the Fund's actuary.

For purposes of this act, any employee is vested who has at least 15 years of service, or 10 years or more, if the employee is disabled.

It appears that in dissolving the Fund in this manner the City of Gastonia proposes to pay vested members of the Policemen's Supplemental Pension Fund amounts less than the benefit that they had been promised throughout their career with the Police Department. Inasmuch as the Fund has been in existence since 1955, it is likely that all of the current and retired members were induced to continue employment with the City, at least in part, by the promise of the supplemental pension benefit. In fact, the Gastonia Police Department Employment website currently contains a reference to the supplemental pension fund as one of the retirement benefits offered to employees.

In *Bailey v State of North Carolina*, the Supreme Court established that the relationship between a public Retirement System and its employees who have vested in the system is contractual in nature, and that the benefits of the contract cannot be diminished or impaired without violating the Contract Clause of the federal constitution. By electing to discontinue funding of the Gastonia Policemen's Supplemental Pension Fund, and dissolving the Fund as proposed in this bill, it appears that the City of Gastonia may impair the contractual rights of all of the vested and retired members of the Fund. If challenged, the City could be found to have violated the constitutional rights of its vested members and required by the court to honor its contractual obligation.

The act would become effective July 1, 2002.

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

Name of Committee

8-21-02

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

J L Dobbins	Gastonia PP P O Box 1748 Gastonia NC 28053
Rodney Parham	Gastonia Police
Richard Rogers	ROGERS Atty at Law PLLC
Russell Fuller	Aon Consulting, Auburn Raleigh NC
Bill Bradley	City of Gastonia Gastonia, NC
B.V. Posey	CITY OF GASTONIA Police Dept (Retired)
JOHN C. MIDGETTE	NC PBA
Richard O'Brien	PFFPNC
Mary Hartness	City GASTONIA Police Dept (Retired)
Dennis Crosby	GASTONIA POLICE DEPT. (RETIRED)
Ernest R. Pruitt	GASTONIA Police Dept (Retired)

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

DANNY COCHRAN	GASTONIA POLICE (RET)
Walter Griggs	Gastonia Police (Ret)
JACK POSTELL	GASTONIA P.D. (Ret)
Frank Lewis	QSBM
Chad Hawkins	Gastonia Police Dept. (Active)
PATRICK DALEY	GASTONIA POLICE Dept. (Active)
Donald R. Caldwell Jr.	Gastonia Police Dept. (active)
Jeff Weston	Gastonia Police Dept. (Active)
DAVID R. MORTON	GASTONIA POLICE DEPT (ACTIVE)
Dee Dee Phinehart	Gastonia Police Dept (Active)
MARTY SMITH	GASTONIA POLICE DEPT. (ACTIVE)

VISITOR REGISTRATION SHEET

Pensions & Retirement

Name of Committee

8/21/02

Date

VISITORS: PLEASE SIGN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Barry Smith

Freedom Newspaper

Rob Smith

STATE WIRE

Greeting
Others wanted to be here

Benefit promised
when here Brochure was

Made career choices based
on this promise.

Heard about problems
met w/ Gen
Continue to run out.
Rumors of vote
Retirees excluded

Have to have 15 & eligible
for state retirement

Two cases

Not given info.

Two memo from Chief

Bailey v. State of NC ^{Obligate} (Contractual)
"A public employee has a right
to expect that retirement rights
earned for in exchange for his
loyalty and continued services
and continually promised him over
many years, will not be removed
or diminished..."

Quoting
from the
Court's
opinion.

City should have been properly
funding this.

This is creating a huge
moral problem.

1st between Actual Duty v. Peter
Now between 15 yrs. +

Those less than 15 years

We have been told we can
probably win if we take the
City to Court.

That costs time and money.
Many older retirees would
not live to see it resolved.

We ask you to kill this
bill in committee, that
will create a situation
where the city will have
to face their obligation.

Thank you.

Mr. Jeffrey Robbins

Distinguished Representatives

I stand here before you as a Gastonia Police Officer and a vested member of the Gastonia Policeman's Supplemental Pension Fund. The future of this pension fund is what brings me here today. I have been a police officer for the last 20 years. From the start of my career with the police department I was made aware of and counted on receiving benefits from the pension fund.

To me the pension fund seemed like an exceptional benefit that was conceived by officers from the past that had a genuine concern for their brother officers and far reaching forethought to plan for the future. The fund was initially set up to be self-sustaining. It was funded through profits from vending machines. Although it was not too many years until the vending machine profits were no longer used to maintain the pension fund it was commonly known as "the drink box fund."

When it was no longer possible to finance this pension fund through the vending machine profits, it continued to survive through funds available to the city that were funneled into the pension fund. The city has also budgeted money at times to support this fund. In 1996 it became known that the pension fund was still in need of additional sources of income. Earlier provisions of legislation involving the pension fund had allowed for the board of directors to call for a vote from the membership for a 2% payroll deduction to provide revenue to the fund. This pay deduction was passed by an overwhelming majority vote of the working officers who were part of the pension plan. This 2% of the officers pay was to be used to invest and to insure a fund balance so the monthly pay out to retirees could continue. It was also agreed that this 2% taken out of the officers pay for the duration of his career would be returned to him in full upon retirement.

In retrospect this 2% contribution that began in 1996 was not adequate to insure survival of the pension fund. This brings us to where we are today. A recent actuary study has revealed that the pension fund stands on the brink of financial instability. In a relatively few short years the pension fund will no longer be able to meet its obligations to the retirees. Also it will consume the existing fund balance to a point where it will not be able to return individual officers their contributions that have been deducted over the years from their paychecks.

We find ourselves in a precarious position. I say we because I believe that all of us are in this together. The retirees certainly need to be considered, but we need not overlook officers nearing retirement, as well as officers beginning their careers. It appears that we have three options to resolve our dilemma. One is to do nothing. Two is to stop the current payroll deductions and return the working officers their individual contributions and let the remaining funds be distributed to the retirees for as long as possible. Three is to dismantle the pension fund. This would occur by returning the working officers their contributions with modest interest and distributing the remaining funds to the retirees along with the vested members of the pension plan. Lets examine these three options in greater detail

First to do nothing is ludicrous. This would mean that working police officers would be expected to continue to pay into a retirement fund from which they can never expect to receive any benefits whatsoever. Charity is a very good thing, but when you give your money unwillingly it becomes larceny not charity. If officers want to give up a percentage of their pay to support retired officers, that should be their decision to make.

The sad fact is that many officers beginning their careers can ill afford additional and unwanted deductions from their pay. To do nothing would breach the conditions set fourth in the 1996, when the payroll deductions began. If nothing is done the fund will reach a point where it is not able to return individual officers' contributions in full when they retire.

The second option is probably the most favorable to the retirees. The officers would have their contributions returned to them, and pay deductions would cease. The pension fund would pay out for as long as it can. This does not seem like such a bad option on the surface. However closer examination reveals much inequity. I don't wish to speak for other individuals, so I will ask you to consider my personal situation, which I assure you is quite typical. 20 years ago when I began by career with the Gastonia Police Department, I was told that I would be eligible to participate in this pension fund. Now I am 2/3 of the way to retirement. Under this option I would be asked to forego any benefits whatsoever that I have counted on for 20 years. For six years I have had 2% of my salary taken out and invested. Under this option this six year investment will net me 0 return. I have two children in college, and on a policeman's pay I can not afford to be less than frugal with my money. No rational person should be expected to tie up their money for six years and expect no return on their investment. If not for the payroll deduction from myself and many other officers, the pension fund would be defunct. I don't think that it is unfair for me and others like me to expect a return on our investment and some form of realization of benefits that were promised to us.

The third option represents a fair and equitable proposal for everyone involved in this situation. This proposal is what you have laid out for you in bill 1219. The crux of this plan is to stop payroll deductions; to return presently employed officers their contributions made up to this point along with a modest amount of interest. The remaining funds would then be distributed to the retirees and vested members of the pension plan. Herein this option lies the only solution that provides as best as possible for all concerned. The intent of the founders of this pension plan was to provide a benefit to fellow police officers. This solution embodies the notion of police officers working or retired looking after their brother officers. Ideally we would all have received life long benefits from this pension plan. Under this proposal we all receive some type benefits as such are possible, and we all bear some of the hardship of a lost benefit. This plan was conceived under the guidance of a pension attorney and an actuary. This plan provides as much remedy as possible for the flaws of the previous two options. Officers who have contributed to the fund, some for as long as six years will receive their money back with interest. Vested members in the plan will receive a small portion of the benefits they were expecting. Retirees will receive the bulk of the available funds to satisfy as much of their expected retirement income as

possible. This plan represents a compromise. It was arrived at after advisement by professionals in the field of pensions and retirement.

In closing I am sure that if you will review this situation that you will see that the decision to stop this pension fund has not been taken lightly. Sadly to say this pension fund is in a rapid state of decline. Any delay in action only serves to move the fund closer to financial peril. Also remember that under the plan contained in bill 1219 everyone affected by this situation receives some type of compensation. I'm sure retirees will contend that it is not fair to take away a portion of their income. I would remind you that this fund is and always has been a supplement to a retiree's pension. The severity of the current economy has yoked all of us to hard times. No one would expect a pensioner to give up funds required for their sustenance.

Thank you for giving me the opportunity to address this committee. I am glad that you have not flippantly approached this decision. I am confident that the merits of bill 1219 can stand up to any scrutiny. I challenge you to consider the plight of everyone involved in this situation. Do not fall under the influence of any particular group or individual. Fulfill your obligation to represent all of your constituency. Carefully consider the decision that you are being asked to make. Make the decision that is fair and equitable. Vote for bill 1219.

CHAIRMAN Barefoot &

Ladies and Gentlemen,

Thank you for the opportunity to come before you and speak about this proposed legislation. My name is Jack Postell and I am retired from the Gastonia Police Department with over 26 years of service to the city, and its citizens. The last 13 years of my service was as the Chief of Police. I retired April 30, 2001.

When I joined the department in 1975, after serving in the US Air Force, Major Roy Short (now deceased) gave me an introduction to the benefits of Police Service with the Gastonia Police Department including the so called "Drink Box" fund which for my entire career has been a benefit I have looked forward to receiving.

During my tenure as Chief I served on the Gastonia Police Supplemental Retirement Fund Board along with the Assistant Chief (then Major Parham) and the City's Finance Director (Bill Bradley) who provided Investment advise to us.

This fund was established with retirement money paid by the city and returned to the City by the State for officers who left police service prior to retiring, along with some profits from the drink machine at the department. The City has for several years given \$20,000 per year to this fund and there have been some private donations. In my role as the former Chief of Police and a former member of the Pension Board ask the City to take this fund over, but this request was declined.

M. Jack Postell

As a retiree I have several concerns,

- (1) This was a benefit promised by the City to me and is actually advertised today on the City's web site for employment as an officer as a benefit . I read on the General Assembly's web site that your staff sees Constitutional problems with this proposal.
- (2) Current State Statutes are already in place to govern the fund and address how money is to be distributed from the fund, including what will happen if there are insufficient funds to continue paying retirees.
- (3) The distribution of these funds under the proposal is just simply **not fair to the 50 retirees and their families.** Under current law, officers must have 15 years of service (and) I emphasize must retire under the state's retirement guidelines to be eligible to receive these funds. This proposal, if approved, would allow officers who may never qualify for retirement to take money, and from what I understand, a lot of it, from the retirees who have put in their time and met the statutory requirement for retirement. For example if these officers discussed in this proposal who have 15-29 years of service, quit, get terminated or transfer to another department, they would never be eligible to receive any of these funds. I understand this part of the Cities proposal has even caused internal strife in the Police Department between the officers

with 15+ years of service and the ones with less than 15 years of service who feel they should be able to get a share of these retirement funds also.

- (4) Retirees, many of whom are much older than I are on fixed incomes and any sudden, unexpected, stoppage of funds like this proposal calls for will create undue hardships on these men and women. I spoke to an elderly female retiree who physically could not come today, but who is terribly distraught over the prospect of losing this source of income.
- (5) There are currently enough funds to sustain this retirement fund for 3-4 years and if the fund did indeed end would provide an adequate amount of time for the retirees to make adjustments to their standard of living.
- (6) Lastly, Ladies and Gentlemen, we 50 retirees currently getting retirement payments from this fund were never placed under Social Security. The City has never paid into the Social Security System on our behalf, this retirement fund was suppose to take its place for me and others. The City has always paid SS for other city employees and only recently been mandated to paid it on newly hired Officers, so if we lose this retirement fund we actually get a double whammy!!

If I had known what was going to be proposed and how the retirees were going to be treated I would have never retired as Chief from the department. I would have stayed and fought for the retirement fund and the retirees. I know there may be pressure for you to move this Bill forward and quite honestly we don't have any political clout, we don't have financial backing to fight this, we are just a group of retirees who feel deserted by the company we gave our lives to, I think we know how the **Enron** employees feel, and I ask you as 'our' representatives to represent our interest in a situation that is simply not fair to us. I ask that this proposal not be passed this session giving the Board of Directors, the City and the Retiree's more time to work out a plan that is representative and fair for all involved. Thank you for your time, your interest and thank you for all you do for our state.

While you have an OBLIGATION
TO THE HOME MUNICIPALITIES
TO move the Bill FORWARD
you also have an obligation
to the people as citizens.

AGENDA

HOUSE COMMITTEE ON PENSIONS AND RETIREMENT

**Thursday, September 5, 2002
Room 415 Legislative Office Building
9:00 A.M.**

OPENING REMARKS

**Representative Dan Barefoot, Presiding Chair
Pensions and Retirement Committee**

AGENDA ITEMS

**SB 1443 FACILITATE JOB SHARING BY TEACHERS
Senator Howard Lee, Sponsor**

ADJOURNMENT

House Pensions and Retirement Committee
September 5, 2002

Minutes

The House Committee on Pensions and Retirement met on Thursday, September 5, 2002 in Room 415 of the Legislative Office Building at 9:00 A.M. The following members were present: Representatives Barefoot and Cox, Co Chairs; Representative McCombs, Vice-Chair; and Representatives Barbee, Rogers, Tolson, Wilson, and Yongue. Theresa Matula, Karen Cochrane-Brown, and Sarah Fuerst, Research Division, were also in attendance. A Visitor Registration list is attached and made part of these minutes.

Representative Barefoot called the meeting to order and introduced the Pages serving the Committee: Anthony Burgess, of Halifax County, sponsored by Representative John Hall; Catherine Hooks of Wayne County, sponsored by Representative Phil Baddour; Brian Clements of Wake County, sponsored by Representative Art Pope.

The bill before the committee was **SENATE BILL 1443-A BILL TO BE ENTITLED AN ACT TO FACILITATE JOB SHARING BY PUBLIC SCHOOL TEACHERS**. A copy of the bill, fiscal note and bill summary are attached and made part of these minutes.

Representative Yongue moved for adoption of the Proposed Committee Substitute for committee consideration; motion carried.

Chairman Barefoot recognized Senator Howard Lee, bill sponsor, to explain the bill. He stated that this bill is a creative opportunity to assist our school system in being able to fill very needed positions on their teaching staffs. The purpose of this bill being before the Pensions and Retirement Committee is to help you understand the impact that this bill will not have on the retirement system. How this works is that the school systems would have the flexibility (this is not a mandated bill, it's another tool they will have) the flexibility of taking a "full" job, dividing that job, then prorating the retirement payments into the system that allows the person then to get prorated benefits. The actuary shows there will be no impact on the retirement system. The same thing was done for the Health System, and the same result accrued there. It will help our school systems move forward.

The Chairman reminded the members that if this bill gets a favorable report, it will have to go to the Education Committee, and those of us who are on Education, know it will get a thorough going-over.

Representative Young spoke in favor of the bill. He stated there was a tremendous shortage of teachers. It's estimated there is a shortage of around 900 teachers for this school year. He added we have had various problems, various things we are trying in the system to put in place, and this is one I think we can tap a resource of single moms or folks that have other obligations that can work half time and have a lot of benefits.

Michael Williamson of the State Treasurer's Office was recognized to speak on the bill. He said the only issue they have is the administration of it. He added that it calls for a

different calculation they have to work with, and the methodology used in it may be better than the one that we presently have in all our systems.

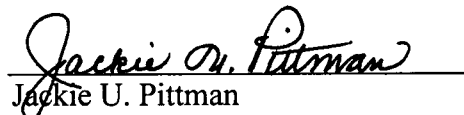
Representative Young moved that the committee give a favorable report to the proposed House Committee Substitute Bill and an unfavorable as to Senate Committee Substitute Bill with the recommendation that it be re-referred to the House Committee on Education. The motion carried.

The meeting was adjourned 9:15 A.M.

Respectfully submitted,



Representative Dan Barefoot
Chair Presiding



Jackie U. Pittman
Committee Assistant

Attachments:

Visitor Registration Sheet
Senate Bill 1443
Actuarial Note
Bill Summary
Committee Report

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

SEPTEMBER 5, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

Franklyn's	OSB m
Susan Harris	WCPSS
Susan Markham	Professional Educators of NC
JB Bx	C... 4+
Patricia Munn	PA NY Acc
P. L. H. H.	M. L. H. C.
Colleen Kochanek	Hofer & Caldwell, P.A.
Leticia Withrow	NC state match
Joanne Scharer	Retirement - State Treasurer
Michael Williamson	" "
Finia Duggan	SBE

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 1443
Education/Higher Education Committee Substitute Adopted 8/15/02

Short Title: Facilitate Job Sharing by Teachers.

(Public)

Sponsors:

Referred to:

June 18, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO FACILITATE JOB SHARING BY PUBLIC SCHOOL TEACHERS.
3 The General Assembly of North Carolina enacts:

4 SECTION 1. Chapter 115C of the General Statutes is amended by adding a
5 new section to read:

6 **"§ 115C-302.2. Job sharing by classroom teachers.**

7 (a) The General Assembly finds that there is a shortage of qualified classroom
8 teachers available in certain areas of certification, grade levels, and geographical areas
9 of the State. The elimination of administrative and fiscal limitations on job-sharing
10 arrangements would make teaching an attractive option for well-qualified classroom
11 teachers who do not wish to work full time.

12 (b) A 'classroom teacher in a job-sharing position' is a person who:

13 (1) Is employed by a local board of education as a public school teacher
14 for a percentage of the teacher workweek, as defined by that local
15 board of education;

16 (2) Is paid on the teacher salary schedule;

17 (3) Spends at least seventy percent (70%) of his or her work time in
18 classroom instruction; and

19 (4) Is sharing a teacher position with one or more employees of that local
20 board of education who meet the requirements of subdivisions (1)
21 through (3) of this subsection.

22 The term does not include certified instructional support personnel or certified
23 school services personnel such as guidance counselors, media coordinators,
24 psychologists, social workers, audiologists, speech and language pathologists, and
25 nurses.

26 (c) The State Board of Education shall adopt rules to facilitate job sharing by
27 classroom teachers. These rules shall provide that a classroom teacher in a job-sharing
28 position shall receive paid legal holidays, annual vacation leave, sick leave, and
29 personal leave on a pro rata basis. Such a teacher shall also receive service credit under

1 the Teachers' and State Employees' Retirement System as provided in G.S. 135-4(b) and
2 insurance benefits as provided in Article 3 of Chapter 135 of the General Statutes."

3 SECTION 2. G.S. 135-1(25) reads as rewritten:

4 "§ 135-1. Definitions.

5 The following words and phrases as used in this Chapter, unless a different meaning
6 is plainly required by the context, shall have the following meanings:

7 ...

8 (25) (Effective until January 1, 2003) "Teacher" shall mean any teacher,
9 helping teacher, classroom teacher in a job-sharing position as defined
10 in G.S. 115C-302.2(b), librarian, principal, supervisor, superintendent
11 of public schools or any full-time employee, city or county,
12 superintendent of public instruction, or any full-time employee of
13 Department of Public Instruction, president, dean or teacher, or any
14 full-time employee in any educational institution supported by and
15 under the control of the State: Provided, that the term "teacher" shall
16 not include any part-time, temporary, or substitute teacher or
17 ~~employee, employee except for a classroom teacher in a job-sharing~~
18 position, and shall not include those participating in an optional
19 retirement program provided for in G.S. 135-5.1. In all cases of doubt,
20 the Board of Trustees, hereinafter [hereinbefore] defined, shall
21 determine whether any person is a teacher as defined in this Chapter.
22 On and after August 1, 2001, a person who is a nonimmigrant alien
23 and who otherwise meets the requirements of this subdivision shall not
24 be excluded from the definition of "teacher" solely because the person
25 holds a temporary or time-limited visa.

26 (25) (Effective January 1, 2003) "Teacher" shall mean any teacher, helping
27 teacher, classroom teacher in a job-sharing position as defined in G.S.
28 115C-302.2(b), librarian, principal, supervisor, superintendent of
29 public schools or any full-time employee, city or county,
30 superintendent of public instruction, or any full-time employee of
31 Department of Public Instruction, president, dean or teacher, or any
32 full-time employee in any educational institution supported by and
33 under the control of the State: Provided, that the term "teacher" shall
34 not include any part-time, temporary, or substitute teacher or
35 ~~employee, employee except for a classroom teacher in a job-sharing~~
36 position, and shall not include those participating in an optional
37 retirement program provided for in G.S. 135-5.1 or G.S. 135-5.4. In all
38 cases of doubt, the Board of Trustees, hereinbefore defined, shall
39 determine whether any person is a teacher as defined in this Chapter.
40 On and after August 1, 2001, a person who is a nonimmigrant alien
41 and who otherwise meets the requirements of this subdivision shall not
42 be excluded from the definition of "teacher" solely because the person
43 holds a temporary or time-limited visa.

44 ..."

1 **SECTION 3.** G.S. 135-4(b) reads as rewritten:

2 "(b) The Board of Trustees shall fix and determine by appropriate rules and
3 regulations how much service in any year is equivalent to one year of service, but in no
4 case shall more than one year of service be creditable for all services in one year.
5 Service rendered for the regular school year in any district shall be equivalent to one
6 year's service. A classroom teacher in a job-sharing position shall receive credit for each
7 regular school year taught at a rate equal to the percentage of the teacher workweek that
8 the teacher was employed, but the salary credited shall be that of the full-time position."

9 **SECTION 4.** G.S. 135-40.2 is amended by adding a new subsection to read:

10 "(a2) A classroom teacher in a job-sharing position as defined in G.S.
11 115C-302.2(b) shall be eligible for coverage under the Plan, on a partially contributory
12 basis, subject to the provisions of G.S. 135-40.3. If these employees elect to participate
13 in the plan, the employing unit shall pay a proportionate rate of the Plan's total
14 noncontributory premiums. Individual employees shall pay the balance of the total
15 noncontributory premiums not paid by the employing unit."

16 **SECTION 5.** This act becomes effective January 1, 2003.



**North Carolina General Assembly
Legislative Services Office**

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Raleigh, NC 27603-5925
(919) 733-2578

July 27, 2002

MEMORANDUM

TO: Senator Howard Lee

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note Senate Bill 1443

Re: Job Sharing by Teachers

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Senate Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Buck Consultants
- (3) Actuarial Note, Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Proposed Committee Substitute for Senate Bill 1443

SHORT TITLE: Facilitate Job Sharing by Teachers

SPONSOR(S): Senator Lee

SYSTEM OR PROGRAM AFFECTED: Teacher's & State Employees' Retirement System

FUNDS AFFECTED: General Fund, Highway Fund and Receipt Fund

BILL SUMMARY: The bill will allow classroom teachers who are in a job-sharing position to become members of the Teacher's & State Employees' Retirement System. Service would be earned on portion of work as it relates to full-time. For example a member would earn one year over a two year period, if they worked 50% basis. Under current law, only teachers who work a minimum of 30 hours per week for nine or more months per year are members of the System.

EFFECTIVE DATE: January 1, 2003

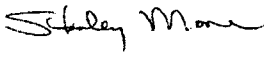
ESTIMATED IMPACT ON STATE: Both the System's actuary, Buck Consultants, and the General Assembly's actuary, Hartman & Associates, agree that there should be no cost to the System.

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, 2000 actuarial valuation of the fund. The data included 292,311 active members with an annual payroll of \$9 billion and 1107,743 retired members in receipt of annual pensions totaling \$1.68 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.

SOURCES OF DATA: System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION 733-4910

PREPARED BY: Stanley Moore 

APPROVED BY: James D. Johnson 

DATE: July 26, 2002

BUCK CONSULTANTS

A Mellon Consulting Company

200 Galleria Parkway, N.W. Suite 1900
Atlanta, Georgia 30339-5945

July 22, 2002

Mr. Michael L. Williamson
Deputy Treasurer and Director
Retirement Systems Division
Department of State Treasurer
325 North Salisbury Street
Raleigh, NC 27603-1385

Proposed Committee Substitute for Senate Bill 1443

Dear Mr. Williamson:

We have received your letter of July 22 regarding Proposed Committee Substitute for Senate Bill 1443 which affects the Teachers' and State Employees' Retirement System.

This legislation appears, in Section 2, to amend the definition of "teacher" to include classroom teachers employed in a job-sharing position as defined in G.S. 115C-302.1(b). Section 3 appears to amend the provision of G.S. 135-4(b) to allow service credit equal to the percentage of the workweek the teacher, employed in a job-sharing position, was employed. This Section also appears to allow salary to be credited at the rate of a full-time position.

There would be no cost to the System due to this legislation.

As a technical observation, the term "salary" does not appear to be a defined term. Also, some administrative problems will result as the current computer systems are not currently capable of handling pro-rated service or compensation at a rate higher than reported/earned.

If we can be of further assistance with regard to this legislation, please do not hesitate to contact us.

Sincerely,

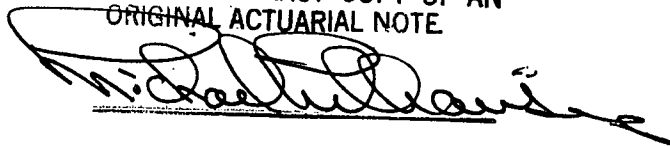


Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

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THIS IS TO CERTIFY THAT THIS IS A
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668 Link Road
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July 19, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed Committee Substitute to Senate Bill 1443: An Act to
Facilitate Job Sharing by Public School Teachers

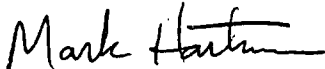
Dear Mr. Moore:

This proposed committee substitute would amend G.S. 135-1(25) to provide that the definition of teacher includes a classroom teacher in a job-sharing position. G.S. 115C-302.1(b) provides that such individual is employed as a public school teacher, is paid on the teacher salary schedule, spends at least 70% of his time in classroom instruction, and is sharing a teacher position with one or more such individuals. G.S. 135-4(b) is amended to provide that a classroom teacher in a job-sharing position receives service credit based on the percentage of the workweek that the teacher was employed, but the salary credited is that of the full-time position. This proposal is effective January 1, 2003.

Currently, individuals working less than 30 hours per week are not eligible to participate in the Teachers' and State Employees' Retirement System (TSERS). This proposal would allow certain employees who are currently ineligible to participate in the TSERS if they are teachers in a job-sharing position. Addition of these employees is not expected to noticeably alter the Plan demographics, so the current employer and employee contribution rates are expected to be sufficient to provide benefits for these members. Thus, the cost would be the employer normal contribution rate applied to the payroll of employees in job-sharing positions. This proposal may encourage additional job-sharing; however, the benefit split provided by this proposal is not expected to produce a significant financial impact to the TSERS.

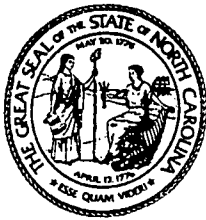
If you have any questions, let me know.

Sincerely,



Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt



SENATE BILL 1443: Facilitate Job Sharing by Teachers

BILL ANALYSIS

Committee: House Pensions & Retirement
Date: September 5, 2002
Version: Second Edition

Introduced by: Senator Lee
Summary by: Theresa Matula
Committee Staff

SUMMARY: *Senate Bill 1443 aims to facilitate job sharing by classroom teachers who do not wish to work full time by requiring the State Board of Education to adopt rules providing holidays and leave benefits on a pro rata basis; amending the definitions and creditable service sections of the Teachers' and State Employees' Retirement System; and amending the eligibility criteria of the Comprehensive Major Medical Plan to allow coverage on a partially contributory basis.*

BILL ANALYSIS:

Section 1. Senate Bill 1443 adds G.S. 115C-302.2 to facilitate job sharing for classroom teachers who do not wish to work full time. This section of the bill requires the State Board of Education to adopt rules to provide paid legal holidays, annual vacation leave, sick leave, and personal leave on a pro rata basis to job-sharing classroom teachers. Additionally, it specifies that a job-sharing classroom teacher shall also receive service credit under the Teachers' and State Employees' Retirement System and insurance benefits. The section defines a classroom teacher in a job-sharing position as a person who is:

1. Employed by a local board of education as a public school teacher for a percentage of the teacher workweek;
2. Paid on a teacher salary schedule;
3. Spends seventy percent (70%) of his or her work time in classroom instruction;
4. Shares a teacher position with one or more employees of that local board of education who meet requirements 1 through 3 above.

The term does not include certified instructional support personnel or certified school services personnel. The bill does not currently limit the number of employees who may share a position.

Section 2. Senate Bill 1443 rewrites G.S. 135-1(25) amending the definition of "Teacher" under the Teachers' and State Employees' Retirement System (TSERS) to include a classroom teacher in a job-sharing position as defined in G.S. 115C-302.2(b).

Section 3. Senate Bill 1443 rewrites G.S. 135-4 regarding creditable service in the TSERS to allow a classroom teacher in a job-sharing position to receive credit for each regular school year taught at a rate equal to the percentage of the teacher workweek that the teacher was employed, but the salary credited shall be that of the full-time position.

Section 4. Senate Bill 1443 adds a new subsection to G.S. 135-40.2 allowing classroom teachers in job-sharing positions to be eligible for coverage under the Comprehensive Major Medical Plan on a partially contributory basis. If an employee elects to participate, the employing unit shall pay a proportionate rate of the Plan's noncontributory premium and the employee shall pay the balance.

Section 5. Senate Bill 1443 becomes effective January 1, 2003.

**2001 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES**

The following report from standing committee is are presented: By Representatives Barefoot and Cox, Chairs for the Committee on **PENSIONS AND RETIREMENT**.

☒ Committee Substitute for

S.B. 1443 A BILL TO BE ENTITLED AN ACT TO FACILITATE JOB SHARING BY
PUBLIC SCHOOL TEACHERS.

- ☐ With a favorable report.
- ☐ With a favorable report and recommendation that the bill be re-referred to the Committee on
Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report, as amended.
- ☐ With a favorable report, as amended, and recommendation that the bill be re-referred to the
Committee on Appropriations ☐ Finance ☐ ☐.
- ☐ With a favorable report as to committee substitute bill (#), ☐ which changes the title,
unfavorable as to (original bill) (Committee Substitute Bill #), (and recommendation
that the committee substitute bill #) be re-referred to the Committee on .)
- ☒ With a favorable report as to House committee substitute bill (#), ☐ which changes
~~the title~~, unfavorable as to Senate committee substitute bill, and be re-referred to Committee
on Education.
- ☐ With an unfavorable report.
- ☐ With recommendation that the House concur.
- ☐ With recommendation that the House do not concur.
- ☐ With recommendation that the House do not concur; request conferees.
- ☐ With recommendation that the House concur; committee believes bill to be material.
- ☐ With an unfavorable report, with a Minority Report attached.
- ☐ Without prejudice.
- ☐ With an indefinite postponement report.
- ☐ With an indefinite postponement report, with a Minority Report attached.
- ☐ With recommendation that it be adopted. (HOUSE RESOLUTION ONLY)

2/15/01

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

D

SENATE BILL 1443
Education/Higher Education Committee Substitute Adopted 8/15/02
PROPOSED HOUSE COMMITTEE SUBSTITUTE S1443-PCS4762-LE-28

Short Title: Facilitate Job Sharing by Teachers.

(Public)

Sponsors:

Referred to:

June 18, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO FACILITATE JOB SHARING BY PUBLIC SCHOOL TEACHERS.
3 The General Assembly of North Carolina enacts:

4 SECTION 1. Chapter 115C of the General Statutes is amended by adding a
5 new section to read:

6 **"§ 115C-302.2. Job sharing by classroom teachers.**

7 (a) The General Assembly finds that there is a shortage of qualified classroom
8 teachers available in certain areas of certification, grade levels, and geographical areas
9 of the State. The elimination of administrative and fiscal limitations on job-sharing
10 arrangements would make teaching an attractive option for well-qualified classroom
11 teachers who do not wish to work full time.

12 (b) A 'classroom teacher in a job-sharing position' is a person who:

- 13 (1) Is employed by a local board of education as a public school teacher
14 for fifty percent (50%) of the teacher workweek, as defined by that
15 local board of education;
16 (2) Is paid on the teacher salary schedule;
17 (3) Spends at least seventy percent (70%) of his or her work time in
18 classroom instruction; and
19 (4) Is sharing a teacher position with one other employee of that local
20 board of education who meets the requirements of subdivisions (1)
21 through (3) of this subsection.

22 The term does not include certified instructional support personnel or certified
23 school services personnel such as guidance counselors, media coordinators,
24 psychologists, social workers, audiologists, speech and language pathologists, and
25 nurses.

26 (c) The State Board of Education shall adopt rules to facilitate job sharing by
27 classroom teachers. These rules shall provide that a classroom teacher in a job-sharing

1 position shall receive paid legal holidays, annual vacation leave, sick leave, and
2 personal leave on a pro rata basis. Such a teacher shall also receive service credit under
3 the Teachers' and State Employees' Retirement System as provided in G.S. 135-4(b) and
4 insurance benefits as provided in Article 3 of Chapter 135 of the General Statutes."

5 SECTION 2. G.S. 135-1(25) reads as rewritten:

6 "§ 135-1. Definitions.

7 The following words and phrases as used in this Chapter, unless a different meaning
8 is plainly required by the context, shall have the following meanings:

- 9 ...
- 10 (25) (Effective until January 1, 2003) "Teacher" shall mean any teacher,
11 helping teacher, classroom teacher in a job-sharing position as defined
12 in G.S. 115C-302.2(b), librarian, principal, supervisor, superintendent
13 of public schools or any full-time employee, city or county,
14 superintendent of public instruction, or any full-time employee of
15 Department of Public Instruction, president, dean or teacher, or any
16 full-time employee in any educational institution supported by and
17 under the control of the State: Provided, that the term "teacher" shall
18 not include any part-time, temporary, or substitute teacher or
19 ~~employee, employee except for a classroom teacher in a job-sharing~~
20 position, and shall not include those participating in an optional
21 retirement program provided for in G.S. 135-5.1. In all cases of doubt,
22 the Board of Trustees, hereinafter [hereinbefore] defined, shall
23 determine whether any person is a teacher as defined in this Chapter.
24 On and after August 1, 2001, a person who is a nonimmigrant alien
25 and who otherwise meets the requirements of this subdivision shall not
26 be excluded from the definition of "teacher" solely because the person
27 holds a temporary or time-limited visa.
- 28 (25) (Effective January 1, 2003) "Teacher" shall mean any teacher, helping
29 teacher, classroom teacher in a job-sharing position as defined in G.S.
30 115C-302.2(b), librarian, principal, supervisor, superintendent of
31 public schools or any full-time employee, city or county,
32 superintendent of public instruction, or any full-time employee of
33 Department of Public Instruction, president, dean or teacher, or any
34 full-time employee in any educational institution supported by and
35 under the control of the State: Provided, that the term "teacher" shall
36 not include any part-time, temporary, or substitute teacher or
37 ~~employee, employee except for a classroom teacher in a job-sharing~~
38 position, and shall not include those participating in an optional
39 retirement program provided for in G.S. 135-5.1 or G.S. 135-5.4. In all
40 cases of doubt, the Board of Trustees, hereinbefore defined, shall
41 determine whether any person is a teacher as defined in this Chapter.
42 On and after August 1, 2001, a person who is a nonimmigrant alien
43 and who otherwise meets the requirements of this subdivision shall not

1 be excluded from the definition of "teacher" solely because the person
2 holds a temporary or time-limited visa.

3"

4 **SECTION 3.** G.S. 135-4(b) reads as rewritten:

5 "(b) The Board of Trustees shall fix and determine by appropriate rules and
6 regulations how much service in any year is equivalent to one year of
7 service, but in no case shall more than one year of service be creditable
8 for all services in one year. Service rendered for the regular school
9 year in any district shall be equivalent to one year's service. Service
10 rendered by a classroom teacher in a job-sharing position shall be
11 credited at the rate of one-half year for each regular school year of
12 employment, but the salary credited shall be that of the full-time
13 position."

14 **SECTION 4.** G.S. 135-40.2 is amended by adding a new subsection to read:

15 "(a2) A classroom teacher in a job-sharing position as defined in G.S.
16 115C-302.2(b) shall be eligible for coverage under the Plan, on a partially contributory
17 basis, subject to the provisions of G.S. 135-40.3. If these employees elect to participate
18 in the Plan, the employing unit shall pay fifty percent (50%) of the Plan's total
19 noncontributory premiums. Individual employees shall pay the balance of the total
20 noncontributory premiums not paid by the employing unit."

21 **SECTION 5.** This act becomes effective January 1, 2003.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

2

HOUSE BILL 760

Senate Insurance and Consumer Protection Committee Substitute Adopted 9/30/02

Short Title: Insurance Amendments.

(Public)

Sponsors:

Referred to:

March 26, 2001

A BILL TO BE ENTITLED

AN ACT TO CLARIFY THE MOTOR VEHICLE REINSURANCE FACILITY AND BEACH AND FAIR PLAN LAWS; AMEND LAWS REGARDING DEPARTMENT OF INSURANCE OVERSIGHT OF INSURANCE COMPANY SOLVENCY; AMEND THE MANAGED CARE EXTERNAL REVIEW LAW TO PROVIDE FOR CLARITY IN MAILING NOTICES, THE SAME IMMUNITY TO MEDICAL PROFESSIONALS ADVISING THE COMMISSIONER AS PROVIDED TO EXTERNAL REVIEWERS, AND CONFIDENTIALITY OF CREDENTIALING INFORMATION IN THE POSSESSION OF THE COMMISSIONER; EXTEND THE RATE HEARING TIMETABLES FOR HOMEOWNERS' AND WORKERS' COMPENSATION INSURANCE; CLARIFY THE NORTH CAROLINA HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT; EXTEND THE TIME FOR PREMIUM FINANCE COMPANY PREMIUM REFUNDS FOR AUDITED POLICIES; AMEND THE TITLE INSURANCE RESERVE LAWS TO ENHANCE INSOLVENCY PROTECTION; AND REDUCE THE NONFORFEITURE INTEREST RATE FOR INDIVIDUAL ANNUITIES.

The General Assembly of North Carolina enacts:

**PART I. REINSURANCE FACILITY AND FAIR AND BEACH PLAN
DEFINITION CLARIFICATIONS AND TECHNICAL AND SUBSTANTIVE
CORRECTIONS.**

SECTION 1.1. G.S. 58-37-1(8) reads as rewritten:

"(8) 'Person' means every natural person, firm, partnership, association, trust, limited liability company, firm, corporation, or government or agency thereof. ~~government, or governmental agency.~~"

SECTION 1.2. G.S. 58-37-35(b)(2) reads as rewritten:

"(2) Additional ceding privileges for motor vehicle insurance shall be provided by the Board of Governors up to the following:

- 1 a. Bodily injury liability: one hundred thousand dollars (\$100,000)
2 each person, three hundred thousand dollars (\$300,000) each
3 accident;
4 b. Property damage liability: fifty thousand dollars (\$50,000) each
5 accident;
6 c. Medical payments: two thousand dollars (\$2,000) each person;
7 except that this coverage shall not be available for motorcycles;
8 d. Underinsured motorist: one million dollars (\$1,000,000) each
9 person and each accident for bodily injury liability; and
10 e. Uninsured motorist: one million dollars (\$1,000,000) each
11 person and each accident for bodily injury and fifty thousand
12 dollars (\$50,000) each accident for property damage (one
13 hundred dollars (\$100.00) deductible)."

14 **SECTION 1.3. G.S. 58-37-35(b)(2a) reads as rewritten:**

15 "(2a) For persons who must maintain liability coverage limits above those
16 available under subdivision (2) of this subsection in order to obtain or
17 continue coverage under personal excess liability or personal
18 'umbrella' insurance policies, additional ceding privileges for motor
19 vehicle insurance shall be provided by the Board of Governors up to
20 the following:

- 21 a. Bodily injury liability: two hundred fifty thousand dollars
22 (\$250,000) each person, five hundred thousand dollars
23 (\$500,000) each accident.
24 b. Property damage liability: one hundred thousand dollars
25 (\$100,000) each accident.
26 c. Medical payments: five thousand dollars (\$5,000) each ~~person~~
27 person; except that this coverage shall not be available for
28 motorcycles.
29 d. Uninsured motorist: one hundred thousand dollars (\$100,000)
30 each accident for property damage (one hundred dollars
31 (\$100.00) deductible)."

32 **SECTION 1.4. G.S. 58-45-6 reads as rewritten:**

33 **"§ 58-45-6. Persons who can be insured by the Association.**

34 As used in this Article, "person" includes the State of North Carolina and any
35 county, city, or other political subdivision of the State of North Carolina."

36 **SECTION 1.5. G.S. 58-46-2 reads as rewritten:**

37 **"§ 58-46-2. Persons who can be insured by the Association.**

38 As used in this Article, "person" includes the State of North Carolina and any
39 county, city, or other political subdivision of the State of North Carolina."

40 **PART II. FINANCIAL EVALUATION AND SOLVENCY PROTECTION.**

41 **SECTION 2.1. G.S. 58-2-131(d) reads as rewritten:**

42 "(d) The Commissioner may conduct an examination of any insurer whenever the
43 Commissioner deems it to be prudent for the protection of policyholders but shall at a
44 minimum conduct a ~~regular~~ financial examination of every domestic insurer not less

1 frequently than once every five years. In scheduling and determining the nature, scope,
2 and frequency of examinations, the Commissioner shall consider such matters as the
3 results of financial statement analyses and ratios, changes in management or ownership,
4 actuarial opinions, reports of independent certified public accountants, and other criteria
5 as set forth in the NAIC Examiners' Handbook."

6 **SECTION 2.2.** G.S. 58-2-131(i) reads as rewritten:

7 "(i) Every person from whom information is sought and its officers, directors, and
8 agents must provide to the Commissioner timely, convenient, and free access, at all
9 reasonable hours at its offices, to all data relating to the property, assets, business, and
10 affairs of the ~~insurer~~-entity being examined. The officers, directors, employees, and
11 agents of the ~~person~~-entity must facilitate and aid in the examination. The refusal of any
12 ~~insurer~~-entity, by its officers, directors, employees, or agents, to submit to examination
13 or to comply with any reasonable written request of the Commissioner or to knowingly
14 or willfully make any false statement in regard to the examination or written request, is
15 grounds for revocation, suspension, refusal, or nonrenewal of any license or authority
16 held by the ~~insurer~~-entity to engage in an insurance or other business subject to the
17 Commissioner's jurisdiction."

18 **SECTION 2.3.** G.S. 58-2-134 reads as rewritten:

19 **"§ 58-2-134. Cost of certain examinations.**

20 (a) An insurer shall reimburse the State Treasurer for the actual expenses
21 incurred by the Department in any examination of those records or assets conducted
22 under G.S. 58-2-131, 58-2-132, or 58-2-133 ~~when:~~ under any of the following
23 circumstances:

- 24 (1) The insurer maintains part of its records or assets outside this State
25 under G.S. 58-7-50 or G.S. 58-7-55 and the examination is of the
26 records or assets outside this State.
- 27 (2) The insurer requests an examination of its records or assets.
- 28 (3) The Commissioner examines an insurer that is impaired or insolvent or
29 is unlikely to be able to meet obligations with respect to known or
30 anticipated claims or to pay other obligations in the normal course of
31 business.
- 32 (4) The examination involves analysis of the company's investment
33 portfolio, a material portion of which comprises a sophisticated
34 derivatives program, material holdings of collateralized mortgage
35 obligations with high flux scores, unusual real estate or limited
36 partnership holdings, high or unusual portfolio turnover, material asset
37 movement between related parties, or unusual securities lending
38 activities.

39 (b) The amount paid by an insurer for an examination of records or assets under
40 this section shall not exceed one hundred thousand dollars (\$100,000), unless the insurer
41 and the Commissioner agree on a higher amount. The State Treasurer shall deposit all
42 funds received under this section in the Insurance Regulatory Fund established under
43 G.S. 58-6-25. Funds received under this section shall be used by the Department for

offsetting the actual expenses incurred by the Department for examinations under this section."

SECTION 2.4. Article 7 of Chapter 58 of the General Statutes is amended by adding a new section to read:

"§ 58-7-73. Dissolutions of insurers.

Upon reaching a determination of intent to dissolve and before filing articles of dissolution with the Office of the Secretary of State, a domestic insurer organized under this Chapter shall file a plan of dissolution for approval by the Commissioner. At such time the Commissioner may restrict the license of the insurer. In order to proceed with a dissolution, the plan must be approved by the Commissioner."

SECTION 2.5. G.S. 58-7-130(b) reads as rewritten:

"(b) No domestic stock insurance company shall declare or pay dividends to its stockholders except from the unassigned surplus of the company as reflected in the company's most recent financial statement filed with the Commissioner under G.S. 58-2-165."

SECTION 2.6. G.S. 58-7-178(b) reads as rewritten:

"(b) An insurer, whether or not it is authorized to do business or has outstanding insurance contracts on lives or risks in any foreign country, may invest in bonds, notes, or stocks of any foreign country or alien corporation that are substantially of the same kinds, classes, and investment grades as those otherwise eligible for investment under this Chapter. The aggregate ~~amount~~ cost of investments under this subsection shall not exceed ten percent (10%) of the insurer's admitted assets, provided that the cost of investments in any foreign country pursuant to this subsection shall not exceed three percent (3%) of the insurer's admitted assets."

SECTION 2.7. G.S. 58-9-2(a)(9) reads as rewritten:

"(9) 'Reinsurer' means any ~~licensed~~ insurer that is licensed by the Commissioner and that is authorized to assume reinsurance."

SECTION 2.8. G.S. 58-13-10 reads as rewritten:

"§ 58-13-10. Scope.

This Article applies to all domestic insurers and to all kinds of insurance written by those insurers under Articles 1 through 68 of this Chapter. Foreign insurers shall comply in substance with the requirements and limitations of this Article. This Article does not apply to the following:

- (1) Variable contracts or guaranteed investment contracts for which separate accounts are required to be maintained.
- (2) Statutory deposits that are required by insurance regulatory agencies to be maintained as a requirement for doing business in such jurisdictions.
- (3) Real estate, authorized under G.S. 58-7-187, encumbered by a mortgage loan with a first lien."

SECTION 2.9. G.S. 58-13-25(a) reads as rewritten:

"(a) Every insurer subject to this Article shall at all times have and maintain free and unencumbered reserve assets equal to an amount that is ~~at least ten percent (10%) more than~~ the total of its policyholder-related liabilities and its required minimum

capital and minimum surplus and shall not pledge, hypothecate, or otherwise encumber those reserve assets. The Commissioner, upon application made to the Commissioner, may issue a written order approving the pledging, hypothecation, or encumbrance of any of the assets of an insurer not otherwise prohibited upon a finding that the pledging, hypothecation, or encumbrance will not adversely affect the insurer's solvency."

SECTION 2.10. G.S. 58-30-62(a) reads as rewritten:

"(a) As used in this section, an insurer has 'exceeded its powers' when it: has refused to permit examination of its books, papers, accounts, records or affairs by the Commissioner; has in violation of G.S. 58-7-50 removed from this State books, papers, accounts or records necessary for an examination of the insurer; has failed to comply promptly with applicable financial reporting statutes or rules and related Department requests; continues to transact the business of insurance after its license has been revoked, suspended, or not renewed by the Commissioner; by contract or otherwise, has unlawfully, or has in violation of an order of the Commissioner, or has without first having obtained any legally required written approval of the Commissioner, totally reinsured its entire outstanding business or merged or consolidated substantially its entire property or business with another insurer; has engaged in any transaction in which it is not authorized to engage under the laws of this State; has not complied with G.S. 58-7-73; or has refused to comply with a lawful order of the Commissioner. As used in this section, 'Commissioner' includes an authorized representative or designee of the Commissioner."

PART III. EXTERNAL REVIEW CLARIFICATIONS.

SECTION 3.1. G.S. 58-50-80(b)(3) reads as rewritten:

"(3) Notify in writing the covered person and the covered person's provider who performed or requested the service whether the request is complete and whether the request has been accepted for external review. If the request is complete and accepted for external review, the notice shall include a copy of the information that the insurer provided to the Commissioner pursuant to subdivision (b)(1) of this section, and inform the covered person that the covered person may submit to the assigned independent review organization in writing, within seven days after the date receipt of the notice, additional information and supporting documentation relevant to the initial denial for the organization to consider when conducting the external review. If the covered person chooses to send additional information to the assigned independent review organization, then the covered person shall at the same time and by the same means, send a copy of that information to the insurer."

SECTION 3.2. G.S. 58-50-80 is amended by adding a new subsection to read:

"(m) For the purposes of this section, a person is presumed to have received a written notice two days after the notice has been placed, first-class postage prepaid, in the United States mail addressed to the person. The presumption may be rebutted by sufficient evidence that the notice was received on another day or not received at all."

1 **SECTION 3.3.** G.S. 58-50-89 reads as rewritten:

2 "**§ 58-50-89. Hold harmless for ~~Commissioner~~ Commissioner, medical**
3 **professionals, and independent review organizations.**

4 ~~The Commissioner or~~ Neither the Commissioner, a medical professional rendering
5 advice to the Commissioner under G.S. 58-50-82(b)(2), an independent review
6 ~~organization or organization,~~ nor a clinical peer reviewer working on behalf of an
7 organization shall ~~not~~ be liable for damages to any person for any opinions rendered
8 during or upon completion of an external review conducted under this Part, unless the
9 opinion was rendered in bad faith or involved gross negligence."

10 **SECTION 3.4.** G.S. 58-2-105 reads as rewritten:

11 "**§ 58-2-105. Confidentiality of medical and credentialing records.**

12 (a) All patient medical records in the possession of the Department are
13 confidential and are not public records pursuant to G.S. 58-2-100 or G.S. 132-1. As
14 used in this section, "patient medical records" includes personal information that relates
15 to an individual's physical or mental condition, medical history, or medical treatment,
16 and that has been obtained from the individual patient, a health care provider, or from
17 the patient's spouse, parent, or legal guardian.

18 (b) Under Part 4 of Article 50 of this Chapter, the Department may disclose
19 patient medical records to an independent review organization, and the organization
20 shall maintain the confidentiality of those records as required by this section, except as
21 allowed by G.S. 58-39-75 and G.S. 58-39-76.

22 (c) Under Part 4 of Article 50 of this Chapter, all information related to the
23 credentialing of medical professionals that is in the possession of the Commissioner is
24 confidential and is a public record neither under this section nor under Chapter 132 of
25 the General Statutes."

26 **PART IV. HOMEOWNERS' AND WORKERS' COMPENSATION INSURANCE**
27 **RATE FILINGS.**

28 **SECTION 4.1.** G.S. 58-36-15(a) reads as rewritten:

29 "(a) The Bureau shall file with the Commissioner copies of the rates, loss costs,
30 classification plans, rating plans and rating systems used by its members. Each rate or
31 loss costs filing shall become effective on the date specified in the filing, but not earlier
32 than ~~105~~ 210 days from the date the filing is received by the Commissioner: Provided
33 that (1) rate or loss costs filings for workers' compensation insurance and employers'
34 liability insurance written in connection therewith shall not become effective earlier
35 than ~~120~~ 210 days from the date the filing is received by the Commissioner or on the
36 date as provided in G.S. 58-36-100, whichever is earlier; and (2) any filing may become
37 effective on a date earlier than that specified in this subsection upon agreement between
38 the Commissioner and the Bureau."

39 **SECTION 4.2.** G.S. 58-36-20(a) reads as rewritten:

40 "(a) At any time within 50 days ~~from and~~ after the date of any filing, the
41 Commissioner may give written notice to the Bureau specifying in what respect and to
42 what extent ~~he the Commissioner~~ contends ~~such the~~ filing fails to comply with the
43 requirements of this Article and fixing a date for hearing not less than 30 days from the
44 date of mailing of such notice. At ~~such the~~ hearing the factors specified in G.S.

1 58-36-10 shall be considered. If the Commissioner after hearing finds that the filing
2 does not comply with the provisions of this Article, he may issue his order determining
3 wherein and to what extent such filing is deemed to be improper and fixing a date
4 thereafter, within a reasonable time, after which ~~such the~~ filing shall no longer be
5 effective. Any order of disapproval under this section must be entered within ~~105~~ 210
6 days ~~of after~~ the date the filing is received by the Commissioner. ~~Provided that any~~
7 ~~order of disapproval under this section with respect to workers' compensation insurance~~
8 ~~and employers' liability insurance written in connection therewith shall be entered~~
9 ~~within 150 days of the date the filing is received by the Commissioner."~~

10 **SECTION 4.3.** G.S. 58-36-65(c) reads as rewritten:

11 "(c) The classifications and Plan filed by the Bureau shall be subject to the filing,
12 hearing, modification, approval, disapproval, review, and appeal procedures provided
13 by law; provided that the ~~105-day~~ 210-day disapproval period in G.S. 58-36-20(a) and
14 the 50-day deemer period in G.S. 58-36-20(b) do not apply to filings or modifications
15 made under this section. The classifications or Plan filed by the Bureau and
16 promulgated by the Commissioner shall of itself not be designed to bring about any
17 increase or decrease in the overall rate level."

18 **PART V. HIPAA CLARIFICATIONS.**

19 **SECTION 5.1.** G.S. 58-68-25(b)(1) reads as rewritten:

20 "(1) Benefits not subject to requirements. –

- 21 a. Coverage only for accident or disability income insurance or
22 any combination of these.
23 b. Coverage issued as a supplement to liability insurance.
24 c. Liability insurance, including general liability insurance and
25 automobile liability insurance.
26 d. Workers' compensation or similar insurance.
27 e. Automobile medical payment insurance.
28 f. Credit-only insurance.
29 g. Coverage for on-site medical clinics.
30 h. Other similar insurance coverage, specified in federal
31 regulations, under which benefits for medical care are
32 secondary or incidental to other insurance benefits.
33 i. Short-term limited-duration health insurance policies as defined
34 in Part 144 of Title 45 of the Code of Federal Regulations."

35 **SECTION 5.2.** G.S. 58-51-15(h) reads as rewritten:

36 "(h) Preexisting Condition Exclusion Clarification. – Sub-subdivision (a)(2)b. of
37 this section does not apply to:

- 38 (1) Policies issued to eligible individuals under G.S. 58-68-60.
39 (2) Excepted benefits as described in ~~G.S. 58-68-25(b)(1), (2), and (4).~~
40 G.S. 58-68-25(b)."

41 **PART VI. PREMIUM FINANCE COMPANY PREMIUM REFUNDS FOR**
42 **AUDITED POLICIES.**

43 **SECTION 6.** G.S. 58-35-85(5) reads as rewritten:

"(5) ~~Whenever~~ When an insurance contract is cancelled in accordance with this section, the insurer shall promptly return ~~whatever the gross unearned premiums that~~ are due under the contract to the insurance premium finance company effecting the ~~cancellation~~ cancellation, for the benefit of the insured or insureds, no later than 30 days after the effective date of cancellation. ~~Whenever~~ When the return premium is ~~in excess of more than the amount due the insured owes~~ the insurance premium finance company ~~by the insured~~ under the agreement, the excess shall be promptly remitted ~~promptly~~ to the order of the insured, as provided in subdivision (8) of this section, subject to the minimum service charge provided for in this Article. ~~In the event that~~ If a premium is subject to an audit to determine the final premium amount, the amount to be refunded to the premium finance company shall be calculated upon the deposit ~~premium~~ premium, and the insurer shall return that amount to the premium finance company no later than ~~30~~ 90 days after the effective date of cancellation. This ~~provision shall~~ subdivision does not limit any other remedies the insurer may have against the insured for additional premiums."

PART VII. AMEND TITLE INSURANCE RESERVE LAWS.

SECTION 7.1. G.S. 58-26-1(b) is repealed.

SECTION 7.2. G.S. 58-26-1 is amended by adding a new subsection to read:

"(b1) Domestic and foreign title insurance companies are subject to the same capital, surplus, and investment requirements that govern the formation and operation of domestic stock casualty companies. Domestic title insurance companies are subject to the same deposit requirements that govern the operation of other domestic casualty companies in this State. Foreign or alien title insurance companies are subject to an initial deposit pursuant to G.S. 58-26-31(b), based on the forecasted statutory premium reserve and the supplemental reserve for the first full year of operation in this State, but not less than two hundred thousand dollars (\$200,000)."

SECTION 7.3. G.S. 58-26-20 reads as rewritten:

"§ 58-26-20. Unearned Statutory premium reserve.

Every domestic title insurance company shall, in addition to other reserves, establish and maintain a reserve to be known as the 'unearned statutory premium reserve' for title insurance, which shall at all times and for all purposes be considered and constitute ~~unearned portions of the original risk premiums and shall be charged as a reserve liability of such the title insurance company in determining its financial conditions. The unearned premium reserve shall be withdrawn from the use of the insurer for its general purposes and placed in a trust account, as approved by the Commissioner, in favor of the holders of title policies and held available for reinsurance of the title policies in the event of insolvency of the insurer. Nothing herein contained shall preclude such an insurer from investing said reserve in investments authorized by law for such an insurer, and the income from such invested reserve shall be included in the general income of the insurer to be used by such insurer for any lawful purpose.~~ condition."

1 **SECTION 7.4.** G.S. 58-26-25(a) reads as rewritten:

2 "(a) The ~~unearned~~statutory premium reserve of every domestic title insurance
3 company shall consist of the aggregate of:

4 (1) The amount of the unearned premium reserve held as of December 31,
5 1998.

6 (2) The amount of all additions required to be made to such reserve by this
7 section, less the reduction of ~~such~~the aggregate amount required
8 ~~hereby.~~ by this section."

9 **SECTION 7.5.** G.S. 58-26-25(b) reads as rewritten:

10 "(b) A domestic title insurance company on and after January 1, 1999, shall
11 reserve initially as ~~an unearned~~a statutory premium reserve a sum equal to ten per
12 ~~cent~~umpercent (10%) of the following items set forth in the title insurer's most recent
13 annual statement on file with the Commissioner:

14 (1) Direct premiums ~~written; and~~written.

15 (2) Premiums for reinsurance assumed less premiums for reinsurance
16 ceded during the year."

17 **SECTION 7.6.** G.S. 58-26-25(c) reads as rewritten:

18 "(c) The aggregate of the amounts set aside in ~~unearned~~statutory premium
19 reserves in any calendar year, ~~pursuant to~~under subsection (b) of this section, shall be
20 reduced annually at the end of each calendar year following the year in which the policy
21 is issued, over a period of 20 years, pursuant to the following: twenty percent (20%) the
22 first year; ten percent (10%) for years two and three; five percent (5%) for years four
23 through 10; three percent (3%) for years 11 through 15; and two percent (2%) for years
24 16 through 20."

25 **SECTION 7.7.** G.S. 58-26-30 is repealed.

26 **SECTION 7.8.** Article 26 of Chapter 58 of the General Statutes is amended
27 by adding a new section to read:

28 "**§ 58-26-31. Statutory premium reserve held in trust or as a deposit.**

29 (a) Each domestic title insurance company shall withdraw from use funds to be
30 used by the Commissioner in the event of the insurer's insolvency, the funds being equal
31 to the statutory premium reserve and the supplemental reserve pursuant to G.S.
32 58-26-25. The amount shall be held in a trust account, as approved by the
33 Commissioner. The trust account will be held in favor of the holders of title policies in
34 the event of the insolvency of the insurer. Nothing in this section precludes the insurer
35 from investing the reserve in investments authorized by law for that insurer, and the
36 income from the invested reserve shall be included in the general income of the insurer
37 to be used by the insurer for any lawful purpose.

38 (b) Each foreign or alien title insurance company shall withdraw from use funds
39 to be used by the Commissioner in the event of the insurer's insolvency, the funds being
40 equal to the statutory premium reserve and the supplemental reserve as calculated under
41 G.S. 58-26-25 for North Carolina risks. The Commissioner shall hold the funds as a
42 deposit in accordance with G.S. 58-5-20. Annually, the company shall file a statement
43 of actuarial opinion consistent with the annual statement instructions for North Carolina
44 risks, issued by a qualified actuary, in support of this deposit.

1 (c) A title insurance company shall have 30 days after notification by the
2 Commissioner to increase the amounts held on deposit. If the amount held on deposit is
3 greater than the amount required under subsection (b) of this section, the Commissioner
4 shall release the excess within 30 days after a request by the insurer."

5 SECTION 7.9. G.S. 58-26-35 reads as rewritten:

6 "§ 58-26-35. Maintenance of the unearned statutory premium reserve.

7 ~~If by reason of any cause, other than depreciation in the market value of investments,~~
8 ~~the amount of the assets of a title insurance company held as investments of its~~
9 ~~unearned premium reserve in trust or held by the Commissioner under G.S. 58-26-31~~
10 ~~should on any date be less than the amount required to be maintained by law in such~~
11 ~~reserve, maintained, and the deficiency shall is not be promptly cured, such the title~~
12 ~~insurance company shall forthwith immediately give written notice thereof of the~~
13 ~~deficiency to the Commissioner and shall make no further policies, contracts of title~~
14 ~~insurance or reinsurance agreements of title insurance not write or assume any title~~
15 ~~insurance until the deficiency shall have has been eliminated and until it shall have has~~
16 ~~received written approval from the Commissioner authorizing it to again issue such~~
17 ~~policies, contracts of title insurance or agreements. write and assume title insurance."~~

18 SECTION 7.10. G.S. 58-26-40 is repealed.

19 **PART VIII. ANNUITY NONFORFEITURE RATE CHANGE.**

20 SECTION 8. G.S. 58-58-60(d) reads as rewritten:

21 "(d) The minimum values as specified in subsections (e), (f), (g), (h) and (j) of any
22 paid-up annuity, cash surrender or death benefits available under an annuity contract
23 shall be based upon minimum nonforfeiture amounts as defined in this section.

24 (1) With respect to contracts providing for flexible considerations, the
25 minimum nonforfeiture amount at any time at or prior to the
26 commencement of any annuity payments shall be equal to an
27 accumulation up to such time at a rate of interest of ~~three percent (3%)~~
28 one and one-half percent (1½%) per annum of percentages of the net
29 considerations (as hereinafter defined) paid prior to such time,
30 decreased by the sum of:

- 31 (i) Any prior withdrawals from or partial surrenders of the contract
32 accumulated at a rate of interest of ~~three percent (3%)~~ one and
33 one-half percent (1½%) per annum; and
34 (ii) The amount of any indebtedness to the company on the
35 contract, including interest due and accrued, and increased by
36 any existing additional amounts credited by the company to the
37 contract.

38 The net considerations for a given contract year used to
39 define the minimum nonforfeiture amount shall be an amount
40 not less than zero and shall be equal to the corresponding gross
41 considerations credited to the contract during that contract year
42 less an annual contract charge of thirty dollars (\$30.00) and less
43 a collection charge of one dollar and twenty-five cents (\$1.25)
44 per consideration credited to the contract during that contract

1 year. The percentages of net considerations shall be sixty-five
2 percent (65%) of the net consideration for the first contract year
3 and eighty-seven and one-half (87 1/2%) of the net
4 considerations for the second and later contract years.
5 Notwithstanding the provisions of the preceding sentence, the
6 percentage shall be sixty-five percent (65%) of the portion of
7 the total net consideration for any renewal contract year which
8 exceeds by not more than two times the sum of those portions
9 of the net considerations in all prior contract years for which the
10 percentage was sixty-five percent (65%).

11 (2) With respect to contracts providing for fixed scheduled considerations,
12 minimum nonforfeiture amounts shall be calculated on the assumption
13 that considerations are paid annually in advance and shall be defined
14 as for contracts with flexible considerations which are paid annually
15 with two exceptions:

16 (i) The portion of the net consideration for the first contract year to
17 be accumulated shall be the sum of sixty-five percent (65%) of
18 the net consideration for the first contract year plus twenty-two
19 and one-half percent (22 1/2%) of the excess of the net
20 consideration for the first contract year over the lesser of the net
21 considerations for the second and third contract years.

22 (ii) The annual contract charge shall be the lesser of (i) thirty
23 dollars (\$30.00) or (ii) ten percent (10%) of the gross annual
24 considerations.

25 (3) With respect to contracts providing for a single consideration,
26 minimum nonforfeiture amounts shall be defined as for contracts with
27 flexible considerations except that the percentage of net consideration
28 used to determine the minimum nonforfeiture amount shall be equal to
29 ninety percent (90%) and the net consideration shall be the gross
30 consideration less a contract charge of seventy-five dollars (\$75.00)."

31 **SECTION 9.** Section 8 of this act is effective when it becomes law and
32 applies to policies issued on or after that date. The remainder of this act is effective
33 when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

5

HOUSE BILL 1187
Committee Substitute Favorable 4/24/01
Third Edition Engrossed 4/26/01
Senate Finance Committee Substitute Adopted 9/25/02
Fifth Edition Engrossed 9/30/02

Short Title: Clarification of Court Fees.

(Public)

Sponsors:

Referred to:

April 12, 2001

A BILL TO BE ENTITLED
AN ACT TO CLARIFY THE COURT FEES FOR LEGAL SERVICES AND TO
MAKE VARIOUS COURT FEES UNIFORM.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 7A-306(a)(2) reads as rewritten:

"(a) In every special proceeding in the superior court, the following costs shall be assessed:

...

(2) For support of the General Court of Justice the sum of thirty dollars (\$30.00). In addition, in proceedings involving land, except boundary disputes, if the fair market value of the land involved is over one hundred dollars (\$100.00), there shall be an additional sum of thirty cents (30¢) per one hundred dollars (\$100.00) of value, or major fraction thereof, not to exceed a maximum additional sum of two hundred dollars (\$200.00). Fair market value is determined by the sale price if there is a sale, the appraiser's valuation if there is no sale, or the appraised value from the property tax records if there is neither a sale nor an appraiser's valuation. Sums collected under this subdivision shall be remitted to the State Treasurer. The State Treasurer shall remit the sum of one dollar and five cents (\$1.05) of each thirty-dollar (\$30.00) General Court of Justice fee collected under this subdivision to the North Carolina State Bar for the provision of services described in G.S. 7A-474.4."

SECTION 2. G.S. 7A-307(a)(2) reads as rewritten:

"(a) In the administration of the estates of decedents, minors, incompetents, of missing persons, and of trusts under wills and under powers of attorney, in trust

proceedings under G.S. 36A-23.1, and in collections of personal property by affidavit, the following costs shall be assessed:

...
 (2) For support of the General Court of Justice, the sum of thirty dollars (\$30.00), plus an additional forty cents (40¢) per one hundred dollars (\$100.00), or major fraction thereof, of the gross estate, not to exceed three thousand dollars (\$3,000). Gross estate shall include the fair market value of all personalty when received, and all proceeds from the sale of realty coming into the hands of the fiduciary, but shall not include the value of realty. In collections of personal property by affidavit, the fee based on the gross estate shall be computed from the information in the final affidavit of collection made pursuant to G.S. 28A-25-3 and shall be paid when that affidavit is filed. In all other cases, this fee shall be computed from the information reported in the inventory and shall be paid when the inventory is filed with the clerk. If additional gross estate, including income, comes into the hands of the fiduciary after the filing of the inventory, the fee for such additional value shall be assessed and paid upon the filing of any account or report disclosing such additional value. For each filing the minimum fee shall be fifteen dollars (\$15.00). Sums collected under this subdivision shall be remitted to the State Treasurer. The State Treasurer shall remit the sum of one dollar and five cents (\$1.05) of each thirty-dollar (\$30.00) General Court of Justice fee collected under this subdivision to the North Carolina State Bar for the provision of services described in G.S. 7A-474.4."

SECTION 3. G.S. 7A-307(b1) reads as rewritten:

"(b1) The clerk shall assess the following miscellaneous fees:

- | | |
|---|------------------------|
| (1) Filing and indexing a will with no probate | |
| — first page | \$ 1.00 |
| — each additional page or fraction thereof | .25 |
| (2) Issuing letters to fiduciaries, per letter over five letters issued..... | 1.00 |
| (3) Inventory of safe deposits of a decedent, per box, per day | 15.00 |
| (4) Taking a deposition | 5.00 10.00 |
| (5) Docketing and indexing a will probated in another county in the State | |
| — first page | 1.00 6.00 |
| — each additional page or fraction thereof | .25 |
| (6) Hearing petition for year's allowance to surviving spouse or child, in cases not assigned to a magistrate, and allotting the same | 4.00 8.00". |

SECTION 4. If Senate Bill 1115, 2002 Regular Session, becomes law, then G.S. 7A-308(a)(4), as rewritten by Section 29A.13.1(a) of that act, reads as rewritten:

1 "(a) The following miscellaneous fees and commissions shall be collected by the
2 clerk of superior court and remitted to the State for the support of the General Court of
3 Justice:

4 ...

5 (4) Taking a deposition ~~7.50~~10.00".

6 **SECTION 5.** This act becomes effective October 1, 2002, and applies to all
7 acts done on or after that date.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

6

HOUSE BILL 1430
Committee Substitute Favorable 6/25/01
Committee Substitute #2 Favorable 7/4/01
Senate Finance Committee Substitute Adopted 9/24/02
Senate Appropriations/Base Budget/Committee Substitute Adopted 9/25/02
Sixth Edition Engrossed 9/30/02

Short Title: State Capital Facilities Financing Act.

(Public)

Sponsors:

Referred to:

May 9, 2001

A BILL TO BE ENTITLED

AN ACT PROVIDING FOR THE FINANCING OF CAPITAL FACILITIES FOR THE STATE, AUTHORIZING THE ISSUANCE OF SPECIAL INDEBTEDNESS FOR REPAIR AND RENOVATIONS, TO REFINANCE TWO PRISONS, AND TO FINANCE THE CONSTRUCTION OF A NEW PSYCHIATRIC HOSPITAL, AUTHORIZING THE ISSUANCE OF SPECIAL OBLIGATION BONDS FOR THE CONSTRUCTION OF A NEW PSYCHIATRIC HOSPITAL, AND EXPANDING THE PURPOSES FOR WHICH COUNTIES AND MUNICIPALITIES MAY USE SPECIAL OBLIGATION BONDS, AND AMENDING RELATED GENERAL LAWS.

The General Assembly of North Carolina enacts:

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PART VII. LOCAL GOVERNMENT SPECIAL OBLIGATION BONDS

PART VIII. GENERAL PROVISIONS

PART I. SPECIAL INDEBTEDNESS

SECTION 1.1. Chapter 142 of the General Statutes is amended by adding a new Article to read:

"Article 8.

"State Capital Facilities Finance Act."§ 142-60. Short title.

This Article may be cited as the State Capital Facilities Finance Act.

"§ 142-61. Findings and purpose.

The General Assembly finds as follows:

- (1) There is a continuing need for capital facilities for the State, many of which will continue to be provided on a "pay-as-you-go" basis by direct appropriations.
- (2) The State will also continue to provide capital facilities through the issuance of general obligation bonds.
- (3) There is a need, however, for the use of alternative financing methods, such as authorized in this Article, to facilitate the providing of capital facilities when circumstances and conditions warrant the providing of capital facilities through financing methods in addition to direct appropriations and the issuance of general obligation bonds.
- (4) The use of these alternative financing methods as authorized in this Article will provide financing flexibility to the State and permit the State to take advantage of changing financial and economic environments.

"§ 142-62. Definitions.

The following definitions apply in this Article:

- (1) Bonded indebtedness. – Limited obligation bonds and bond anticipation notes, including refunding bonds and notes, authorized to be issued under this Article.
- (2) Bonds or notes. – Limited obligation bonds and notes authorized to be issued under this Article.
- (3) Capital facility. – Any one or more of the following:
 - a. Any one or more buildings, utilities, structures, or other facilities or property developments, including streets and landscaping, and the acquisition of equipment, machinery, and furnishings in connection with these items.
 - b. Additions, extensions, enlargements, renovations, and improvements to existing buildings, utilities, structures, or other facilities or property developments, including streets and landscaping.
 - c. Land or an interest in land.
 - d. Other infrastructure.
 - e. Furniture, fixtures, equipment, vehicles, machinery, and similar items.
- (4) Certificates of participation. – Certificates or other instruments delivered by a special corporation evidencing the assignment of proportionate undivided interests in rights to receive payments pursuant to a financing contract.

(5) Certificates of participation indebtedness. – Financing contract indebtedness incurred by the State under a plan of finance in which a special corporation obtains funds to pay the cost of a capital facility to be financed through the delivery by the special corporation of certificates of participation.

(6) Cost. – Any of the following in financing the cost of capital facilities as authorized by this Article:

a. The cost of constructing, reconstructing, renovating, repairing, enlarging, acquiring, and improving capital facilities, including the acquisition of land, rights-of-way, easements, franchises, equipment, machinery, furnishings, and other interests in real or personal property acquired or used in connection with a capital facility.

b. The cost of engineering, architectural, and other consulting services.

c. The cost of providing personnel to ensure effective management of capital facilities.

d. Finance charges, reserves for debt service, and other types of reserves required pursuant to the terms of any special indebtedness or related documents, interest before and during construction or acquisition of a capital facility and, if considered advisable by the State Treasurer, for a period not exceeding two years after the estimated date of completion of construction or acquisition.

e. Administrative expenses and charges.

f. The cost of bond insurance, investment contracts, credit enhancement facilities and liquidity facilities, interest rate swap agreements or other derivative products, financial and legal consultants, and related costs of the incurrence or issuance of special indebtedness.

g. The cost of reimbursing the State, a State agency, or a special corporation for any payments made for any cost described in this subdivision.

h. Any other costs and expenses necessary or incidental to the purposes of this Article.

(7) Credit facility. – An agreement that:

a. Is entered into by the State with a bank, savings and loan association, or other banking institution, an insurance company, reinsurance company, surety company or other insurance institution, a corporation, investment banking firm or other investment institution, or any financial institution or other similar provider of a credit facility, which provider may be located within or without the United States of America; and

b. Provides for prompt payment of all or any part of the principal or purchase price (whether at maturity, presentment or tender for purchase, redemption, or acceleration), redemption premium, if any, and interest with respect to any special indebtedness payable on demand or tender by the owner in consideration of the State agreeing to repay the provider of the credit facility in accordance with the terms and provisions of the agreement.

(8) Department of Administration. – The North Carolina Department of Administration created by Article 36 of Chapter 143 of the General Statutes, or if the Department is abolished or otherwise divested of its functions under this Article, the public body succeeding it in its principal functions or upon which are conferred by law the rights, powers, and duties given by this Article to the Department.

(9) Financing contract. – A contract entered into pursuant to this Article to finance capital facilities and constituting a lease-purchase contract, installment purchase contract, or other similar type installment financing contract. The term does not include, however, a contract that meets any one of the following conditions:

a. It constitutes an operating lease under generally accepted accounting principles.

b. It provides for the payment under the contract over its full term, including periods that may be added to the original term through the exercise of options to renew or extend, of an aggregate principal amount of not in excess of five thousand dollars (\$5,000) or any greater amount that may be established by the Council of State, if the Council of State determines (i) the aggregate amount to be paid under these contracts will not have a significant impact on the State budgetary process or the economy of the State and (ii) the change will lessen the administrative burden on the State.

c. It is executed and provides for the making of all payments under the contract, including payment to be made during any period that may be added to the original term through the exercise of options to renew or extend, in the same fiscal year.

(10) Financing contract indebtedness. – Indebtedness incurred pursuant to a financing contract, including certificates of participation indebtedness.

(11) Fiscal period. – A fiscal biennium or a fiscal year of the fiscal biennium.

(12) Fiscal year. – The fiscal year of the State beginning on July 1 of one calendar year and ending on June 30 of the next calendar year.

(13) Limited obligation bond. – A limited obligation bond issued pursuant to G.S. 142-68 and payable and secured as provided in G.S. 142-69.

- 1 (14) Par formula. – A provision or formula adopted by the State to provide
2 for the adjustment, from time to time, of the interest rate or rates borne
3 or provided for by any special indebtedness, including any of the
4 following:
5 a. A provision providing for an adjustment so that the purchase
6 price of special indebtedness in the open market would be as
7 close to par as possible.
8 b. A provision providing for an adjustment based upon a
9 percentage or percentages of a prime rate or base rate, which
10 percentages may vary or be applied for different periods of
11 time.
12 c. Any provision that the State Treasurer determines is consistent
13 with this Article and will not materially and adversely affect the
14 financial position of the State and the marketing of special
15 indebtedness at a reasonable interest cost to the State.
16 (15) Person. – An individual, a firm, a partnership, an association, a
17 corporation, a limited liability company, or any other organization or
18 group acting as a unit.
19 (16) Special corporation. – Either of the following:
20 a. A nonprofit corporation created under Chapter 55A of the
21 General Statutes for the purpose of facilitating the incurrence of
22 certificates of participation indebtedness by the State under this
23 Article.
24 b. A private corporation or other entity issuing certificates of
25 participation pursuant to this Article.
26 (17) Special indebtedness. – Financing contract indebtedness and bonded
27 indebtedness issued or incurred pursuant to this Article.
28 (18) State. – The State of North Carolina, including any State agency.
29 (19) State agency. – Any agency, institution, board, commission, bureau,
30 council, department, division, officer, or employee of the State. The
31 term does not include counties, municipal corporations, political
32 subdivisions, local boards of education, or other local public bodies.
33 (20) State Treasurer. – The incumbent Treasurer, from time to time, of the
34 State.

35 **"§ 142-63. Authorization of special indebtedness; General Assembly approval.**

36 The State may incur or issue special indebtedness subject to the terms and conditions
37 provided in this Article for the purpose of financing the cost of capital facilities that
38 meet one of the following conditions:

- 39 (1) The General Assembly has enacted legislation describing the capital
40 facility and authorizing its financing by the incurrence or issuance of
41 special indebtedness up to a specific maximum amount.
42 (2) The General Assembly has enacted legislation authorizing the
43 incurrence or issuance of special indebtedness up to a specific

1 maximum amount for a specific category of capital facilities, and the
2 capital facility meets all of the conditions set in that legislation.

3 **"§ 142-64. Procedure for incurrence or issuance of special indebtedness.**

4 (a) Notice and Certificate. – Whenever the State or a State agency intends to use
5 special indebtedness to finance capital facilities, it shall notify the Department of
6 Administration. If the Department of Administration intends for the State to use special
7 indebtedness to finance the capital facilities, it shall provide written notice to the
8 Treasurer advising the Treasurer of its intent. The Treasurer may require a preliminary
9 conference with the Department of Administration to consider the proposed financing.

10 After the filing of the notice and after any preliminary conference, the State
11 Treasurer shall consult with the Office of State Budget and Management as to the
12 revenues expected by that Office to be available to pay all sums to come due on the
13 special indebtedness during its term. If, after consulting with the Office of State Budget
14 and Management, the State Treasurer determines by written certificate that it may be
15 desirable to use special indebtedness to finance the capital facilities, the Department of
16 Administration shall request the Council of State to give its preliminary approval of the
17 use of special indebtedness to finance the capital facilities. The Department of
18 Administration must promptly file copies of the notice and certificate required by this
19 subsection with the Governor and the Council of State.

20 (b) Preliminary Approval. – The Council of State, upon receipt of the notice and
21 certificate required by subsection (a) of this section, shall adopt a resolution granting or
22 denying preliminary approval of the financing. A resolution granting preliminary
23 approval may include any other terms, conditions, and restrictions the Council of State
24 considers appropriate and not inconsistent with the provisions of this Article.

25 (c) Final Approval. – Before any special indebtedness may be incurred or issued
26 pursuant to this Article, the Council of State must authorize the indebtedness by
27 resolution, either as part of or separate from the resolution required by subsection (b) of
28 this section. The resolution must do all of the following:

- 29 (1) Authorize the providing of a particular capital facility or, in general
30 terms, the types or classifications of capital facilities to be provided.
- 31 (2) Set the aggregate principal amount or maximum principal amount of
32 the special indebtedness authorized.
- 33 (3) Set the maturity or maximum maturity of the special indebtedness
34 authorized.
- 35 (4) Set the rate, rates, or maximum rate of interest, which may be fixed or
36 vary over a period of time, of the special indebtedness authorized.
- 37 (5) Include any other conditions or matters not inconsistent with the
38 provisions of this Article in the discretion of the Council of State,
39 which may include the adoption or approvals as may be authorized in
40 G.S. 142-68 and G.S. 142-69.

41 (d) Oversight by Treasurer. – No special indebtedness shall be incurred or issued
42 without the prior written approval of the State Treasurer as provided in this subsection,
43 which is in addition to the certificate given by the State Treasurer pursuant to subsection
44 (a) of this section. In determining whether to approve the proposed financing, the State

1 Treasurer may consider any factors the State Treasurer considers relevant in order to
2 find and determine all of the following:

- 3 (1) The amounts to become due under the special indebtedness, including
4 the interest component or rate, are adequate and not excessive for the
5 purpose proposed.
6 (2) The increase, if any, in State revenues, including taxes, necessary to
7 pay the sums to become due under the special indebtedness, is not
8 excessive.
9 (3) The special indebtedness can be incurred or issued on terms desirable
10 to the State.

11 (e) Designation of Facilities. – If the Council of State authorized in general terms
12 the types or classifications of capital facilities to be financed, then the particular capital
13 facilities and the principal amount of special indebtedness to be incurred or issued for
14 each particular capital facility shall be determined by the Department of Administration
15 after considering any factors it considers relevant in order to determine that the
16 particular capital facility to be provided is desirable for the efficient operation of the
17 State and its agencies and is in the best interests of the State.

18 (f) Type of Debt and Security. – In the absence of a determination by the
19 Council of State, the State Treasurer, after consultation with the Department of
20 Administration, shall determine the specific security offered and whether the special
21 indebtedness to be issued or incurred shall be financing contract indebtedness,
22 certificates of participation indebtedness, bonded indebtedness, or some combination of
23 these.

24 (g) Administration. – The State Treasurer, after consultation with the Department
25 of Administration, shall develop appropriate documents for use under this Article. The
26 State Treasurer shall employ and designate the financial consultants, fiduciaries and
27 other agents, underwriters, and bond attorneys to be associated with the incurrence or
28 issuance of special indebtedness pursuant to this Article.

29 (h) Report to Joint Legislative Commission. – After all the requirements for
30 approval and oversight provided in this section have been met, and at least five days
31 before the issuance or incurrence of the special indebtedness, the State Treasurer must
32 report to the Joint Legislative Commission on Governmental Operations. This report
33 must include the details of the proposed special indebtedness, including the capital
34 facilities to be financed by the indebtedness, the amount of the proposed indebtedness,
35 the type of indebtedness to be issued or incurred, and any other information required by
36 the Commission.

37 **"§ 142-65. Security; other requirements.**

38 (a) Security. – In order to secure (i) lease or installment payments to be made to
39 the lessor, seller, or other person advancing moneys or providing financing under a
40 financing contract, (ii) payment of the principal of and interest on bonded indebtedness,
41 or (iii) payment obligations of the State to the provider of bond insurance, a credit
42 facility, a liquidity facility, or a derivative agreement, special indebtedness may create
43 any combination of the following:

1 (1) A lien on or security interest in one or more, all, or any part of the
2 capital facilities to be financed by the special indebtedness.

3 (2) If the special indebtedness is to finance construction of improvements
4 on real property, a lien on or security interest in all or any part of the
5 land on which the improvements are to be located.

6 (3) If the special indebtedness is to finance renovations or improvements
7 to existing facilities or the installation of fixtures in existing facilities,
8 a lien on or security interest in one or more, all, or any part of the
9 facilities.

10 (b) Value of Security; Multiple Liens. – The estimated value of the property
11 subject to the lien or security interest need not bear any particular relationship to the
12 principal amount of the special indebtedness or other obligation it secures. This Article
13 does not limit the right of the State to grant multiple liens or security interests in a
14 capital facility or other property to the extent not otherwise limited by the terms of any
15 special indebtedness.

16 (c) Governor's Budget. – Documentation relating to any special indebtedness
17 may include provisions requesting the Governor to submit in the Governor's budget
18 proposal or any amendments or supplements to the budget proposed appropriations
19 necessary to make the payments required by the special indebtedness.

20 (d) Source of Repayment. – The payment of amounts payable by the State under
21 special indebtedness or any related documents during any fiscal period shall be limited
22 to funds appropriated for that purpose by the General Assembly in its discretion.

23 (e) No Deficiency Judgment or Pledge. – No deficiency judgment may be
24 rendered against the State in any action for breach of any obligation under special
25 indebtedness or any related documents. The taxing power of the State is not and may
26 not be pledged directly or indirectly to secure any moneys due under special
27 indebtedness or any related documents. In the event that the General Assembly does not
28 appropriate sums sufficient to make payments required under any special indebtedness
29 or any related documents, the net proceeds received from the sale or other disposition of
30 the property subject to the lien or security interest shall be applied to satisfy these
31 payment obligations in accordance with the deed of trust, security agreement, or other
32 documentation relating to the lien or security interest. These net proceeds are
33 appropriated for the purpose of making these payments. Any net proceeds in excess of
34 the amount required to satisfy the obligations of the State under any special
35 indebtedness or any related documents shall be paid to the State Treasurer for deposit
36 to the General Fund.

37 (f) Nonsubstitution Clause. – A financing contract, issue of bonded indebtedness,
38 or other related document shall not contain a nonsubstitution clause that restricts the
39 right of the State to (i) continue to provide a service or conduct an activity or (ii) replace
40 or provide a substitute for any capital facility.

41 (g) Protection of Lender. – Special indebtedness may contain any provisions for
42 protecting and enforcing the rights and remedies of the person advancing moneys or
43 providing financing under a financing contract, the owners of bonded indebtedness, or
44 others to whom the State is obligated under special indebtedness or any related

documents as may be reasonable and proper and not in violation of law. These provisions may include covenants setting forth the duties of the State in respect of any of the following:

- (1) The purposes to which the proceeds of special indebtedness may be applied.
- (2) The disposition and application of the revenues of the State, including taxes.
- (3) Insuring, maintaining, and other duties with respect to the capital facilities financed.
- (4) The disposition of any charges and collection of any revenues and administrative charges.
- (5) The terms and conditions of the issuance of additional special indebtedness.
- (6) The custody, safeguarding, investment, and application of all moneys.

(h) State Property Law Exception. – Chapter 146 of the General Statutes does not apply to any transfer of the State's interest in property authorized by this Article, whether to a deed of trust trustee or other secured party as security for special indebtedness, or to a purchaser of property in connection with a foreclosure or similar conveyance of property to realize upon the security for special indebtedness following the State's default on its obligations under the special indebtedness.

"§ 142-66. Financing contract indebtedness.

(a) Treasurer Oversight. – Financing contract indebtedness shall not be incurred until all documentation providing for its incurrence has been approved by the State Treasurer, after the State Treasurer has consulted with the Department of Administration.

(b) Interest Component. – A financing contract may provide for payments under the contract to represent principal and interest components of the cost of the capital facility to be financed, as determined by the State Treasurer.

(c) Bidding. – Financing contracts may be entered into pursuant to any applicable public or competitive bidding process or any private or negotiated process, to the extent required by applicable law, and if not so required, as may be determined by the Department of Administration after consulting with the State Treasurer.

(d) Party. – All financing contracts shall be executed on behalf of the State by the State Treasurer or, upon delegation by the State Treasurer after having approved the financing contract, by the Department of Administration.

(e) Credit Facility. – If the State Treasurer determines that it is in the best interest of the State, the State Treasurer may arrange for the delivery of a credit facility to secure payment under any financing contract. The State Treasurer may also provide that payments by the State representing the interest component of the payments to be made under a financing contract may be calculated based upon a fixed or a variable rate of interest.

(f) Terms and Conditions. – All other conditions set forth elsewhere in this Article with respect to financing contract indebtedness shall also be satisfied prior to incurring any financing contract indebtedness. To the extent applicable as conclusively

determined by the State Treasurer, the provisions of G.S. 142-69, 142-70, and 142-71 apply to financing contract indebtedness.

"§ 142-67. Additional requirements for certificates of participation indebtedness.

(a) Treasurer Oversight. – A financing contract shall not be used in connection with the delivery of certificates of participation by a special corporation until all documentation providing for its use has been approved by the State Treasurer, after the State Treasurer has consulted with the Department of Administration. All documentation providing for the delivery and sale of certificates of participation must be approved by the State Treasurer.

(b) Procedure. – The special corporation, if used, shall request the approval of the State Treasurer in writing and shall furnish any information and documentation relating to the delivery and sale of the certificates of participation requested by the State Treasurer. In determining whether to approve the financing in the documentation, the State Treasurer shall consider the factors set forth in G.S. 142-64(d), as well as the effect of the proposed financing upon any scheduled or proposed sale of debt obligations by the State or a unit of local government in the State.

(c) Terms; Interest. – Certificates of participation may be sold by the State Treasurer in the manner, either at public or private sale, and for any price or prices that the State Treasurer determines to be in the best interest of the State, and to effect the purposes of this Article, except that the terms of the sale must also be approved by the special corporation. Interest payable with respect to certificates of participation shall accrue at the rate or rates determined by the State Treasurer with the approval of the special corporation.

(d) Trust Agreement. – Certificates of participation may be delivered pursuant to a trust agreement or similar instrument with a corporate trustee approved by the State Treasurer, and the provisions of G.S. 142-69(h) apply to the trust agreement or similar instrument to the extent applicable.

(e) Other Conditions. – All other conditions set forth elsewhere in this Article with respect to certificates of participation indebtedness, including the conditions set forth in G.S. 142-66, must be satisfied before any certificates of participation indebtedness is incurred.

"§ 142-68. Bonded indebtedness.

The State Treasurer is authorized, by and with the consent of the Council of State as provided in this Article, to issue and sell at one time, or from time to time, bonds of the State to be designated "State of North Carolina Limited Obligation Bonds, Series ____" or notes of the State as provided in this Article, for the purpose of providing funds, with any other available funds, for the uses authorized in this Article.

"§ 142-69. Issuance of limited obligation bonds and notes.

(a) Terms and Conditions. – Bonds or notes may bear any dates, may be serial or term bonds or notes, or any combination of these, may mature in any amounts and at any times, not exceeding 40 years from their dates, may be payable at any places, either within or without the United States, in any coin or currency of the United States that at the time of payment is legal tender for payment of public and private debts, may bear interest at any rates, which may vary from time to time, and may be made redeemable

1 before maturity, at the option of the State or otherwise as may be provided by the State,
2 at any prices, including a price greater than the face amount of the bonds or notes, and
3 under any terms and conditions, all as may be determined by the State Treasurer, by and
4 with the consent of the Council of State.

5 (b) Signatures; Form and Denomination; Registration. – Bonds or notes may be
6 issued in certificated or uncertificated form. If issued in certificated form, bonds or
7 notes shall be signed on behalf of the State by the Governor or shall bear the Governor's
8 facsimile signature, shall be signed by the State Treasurer or shall bear the State
9 Treasurer's facsimile signature, and shall bear the great seal of the State or a facsimile of
10 the seal impressed or imprinted on them. If bonds or notes bear the facsimile signatures
11 of the Governor and the State Treasurer, the bonds or notes shall also bear a manual
12 signature which may be that of a bond registrar, trustee, paying agent, or designated
13 assistant of the State Treasurer. If any officer whose signature or facsimile signature
14 appears on bonds or notes issued under this Article ceases to be that officer before the
15 delivery of the bonds or notes, the signature or facsimile signature shall nevertheless
16 have the same validity for all purposes as if the officer had remained in office until
17 delivery of the bonds or notes. Bonds or notes issued under this Article may bear the
18 facsimile signatures of persons, who at the actual time of the execution of the bonds or
19 notes were the proper officers to sign any bond or note although at the date of the bond
20 or note those persons may not have been officers.

21 The form and denomination of bonds or notes, including the provisions with respect
22 to registration of the bonds or notes and any system for their registration, shall be as
23 prescribed by the State Treasurer in conformity with this Article.

24 (c) Manner of Sale; Expenses. – Subject to the approval by the Council of State
25 as to the manner in which bonds or notes will be offered for sale, whether at public or
26 private sale, whether within or without the United States, and whether by publishing
27 notices in certain newspapers and financial journals, mailing notices, inviting bids by
28 correspondence, negotiating contracts of purchase or otherwise, the State Treasurer is
29 authorized to sell bonds or notes at one time, or from time to time, at any rates of
30 interest, which may vary from time to time, and at any prices, including a price less than
31 the face amount of the bonds or notes, as the State Treasurer may determine. All
32 expenses incurred in the preparation, sale, and issuance of bonds or notes shall be paid
33 by the State Treasurer from the proceeds of bonds or notes or other available moneys.

34 (d) Application of Proceeds. – The proceeds of any bonds or notes shall be used
35 solely for the purposes for which the bonds or notes were issued and shall be disbursed
36 in the manner and under the restrictions, if any, that the Council of State may provide in
37 the resolution authorizing the issuance of, or in any trust agreement securing, the bonds
38 or notes.

39 Any additional moneys that may be received by means of a grant or grants from the
40 United States or any agency or department thereof or from any other source to aid in
41 financing the cost of a capital facility may be disbursed, to the extent permitted by the
42 terms of the grant or grants, without regard to any limitations imposed by this Article.

43 (e) Notes; Repayment. – By and with the consent of the Council of State, the
44 State Treasurer is authorized to borrow money and to execute and issue notes of the

1 State for the same, but only in any of the following circumstances and under the
2 following conditions:

- 3
- 4 (1) For anticipating the sale of bonds, the issuance of which the Council of
5 State has approved, if the State Treasurer considers it advisable to
6 postpone the issuance of the bonds.
- 7 (2) For the payment of interest on or any installment of principal of any
8 bonds then outstanding, if there are not sufficient funds in the State
9 treasury with which to pay the interest or installment of principal as
10 they respectively become due.
- 11 (3) For the renewal of any loan evidenced by notes authorized in this
12 Article.
- 13 (4) For the purposes authorized in this Article.
- 14 (5) For refunding bonds or notes or financing contract indebtedness as
15 authorized in this Article.
- 16

17 Funds derived from the sale of limited obligation bonds or notes may be used in the
18 payment of any bond anticipation notes issued under this Article. Funds provided by the
19 General Assembly for the payment of interest on or principal of bonds shall be used in
20 paying the interest on or principal of any notes and any renewals thereof, the proceeds
21 of which have been used in paying interest on or principal of the bonds.

22 (f) Refunding Bonds and Notes. – By and with the consent of the Council of
23 State, the State Treasurer is authorized to issue and sell refunding bonds and notes for
24 the purpose of refunding special indebtedness and to pay the cost of issuance of the
25 refunding bonds or notes. The refunding bonds and notes may be combined with any
26 other issues of State bonds and notes issued pursuant to this Article. Refunding bonds or
27 notes may be issued at any time prior to the final maturity of the debt or obligation to be
28 refunded. The proceeds from the sale of any refunding bonds or notes shall be applied to
29 the immediate payment and retirement of the obligations being refunded or, if not
30 required for the immediate payment of the obligations being refunded, the proceeds
31 shall be deposited in trust to provide for the payment and retirement of the obligations
32 being refunded and to pay any expenses incurred in connection with the refunding.
33 Money in a trust fund may be invested in (i) direct obligations of the United States
34 government, (ii) obligations the principal of and interest on which are guaranteed by the
35 United States government, (iii) to the extent then permitted by law, obligations of any
36 agency or instrumentality of the United States government, or (iv) certificates of deposit
37 issued by a bank or trust company located in the State if the certificates are secured by a
38 pledge of any of the obligations described in (i), (ii), or (iii) above having an aggregate
39 market value, exclusive of accrued interest, equal at least to the principal amount of the
40 certificates so secured. This section does not limit the duration of any deposit in trust for
41 the retirement of obligations being refunded but that have not matured and are not
42 presently redeemable, or if presently redeemable, have not been called for redemption.

43 (g) Security. – Payment of the principal of and the interest on bonds and notes
44 shall be secured as provided in G.S. 142-65.

(h) Trust Agreement. In the discretion of the State Treasurer, any bonds and notes issued under this Article may be secured by a trust agreement or similar instrument between the State and a corporate trustee or by a resolution of the Council of State providing for the appointment of a corporate trustee. The corporate trustee may be, in either case, any trust company or bank that has the powers of a trust company within or without the State. The trust agreement or similar instrument or resolution, hereinafter referred to as "the trust", may provide for security and pledges and assignments that are permitted under this Article and may provide for the granting of a lien or security interest as authorized by G.S. 142-65. The trust may contain any provisions for protecting and enforcing the rights and remedies of the owners of any bonds or notes issued under the trust that are reasonable and not in violation of law, including covenants setting forth the duties of the State with respect to the purposes for which bond or note proceeds may be applied, the disposition and application of the revenues or assets of the State, the duties of the State with respect to the capital facilities financed, the disposition of any charges and collection of any revenues and administrative charges, the terms and conditions of the issuance of additional bonds and notes, and the custody, safeguarding, investment, and application of all moneys. All bonds and notes issued under this Article pursuant to the same trust shall be equally and ratably secured as provided in the trust, without priority by reasons of number, dates of bonds or notes, execution, or delivery, in accordance with the provisions of this Article and of the trust. The trust may, however, provide that bonds or notes issued pursuant to the trust shall, to the extent and in the manner prescribed in the trust, be subordinated and junior in standing, with respect to the payment of principal and interest and to the security of the payment, to any other bonds or notes issued pursuant to the trust. It is lawful for any bank or trust company that may act as depositary of the proceeds of bonds or notes, revenues, or any other money under this Article to furnish any indemnifying bonds or to pledge any securities that may be required by the State Treasurer. The trust may set out the rights and remedies of the owners of any bonds or notes and of any trustee, and may restrict the individual rights of action by the owners. In addition to the foregoing, the trust may contain any other provisions the State Treasurer considers appropriate for the security of the owners of any bonds or notes. Expenses incurred in carrying out the provisions of the trust may be treated as a part of the cost of any capital facility or as an administrative charge and may be paid from the proceeds of the bonds or notes or from any other available funds.

"§ 142-70. Variable rate demand bonds and notes and financing contract indebtedness.

(a) In fixing the details of special indebtedness, the State Treasurer may make the special indebtedness subject to any of the following conditions:

- (1) It is payable from time to time on demand or tender for purchase by the owner thereof, if a credit facility supports the special indebtedness, unless the State Treasurer specifically determines that a credit facility is not required upon a determination by the State Treasurer that the absence of a credit facility will not materially and adversely affect the financial position of the State or the marketing of the bonds or notes or

financing contract indebtedness at a reasonable interest cost to the State.

(2) It is additionally supported by a credit facility.

(3) It is subject to redemption or mandatory tender for purchase prior to maturity.

(4) It bears interest at a rate or rates that may be fixed or may vary over any period of time, as may be provided in the proceedings providing for the issuance or incurrence of the special indebtedness, including any variations that may be permitted pursuant to a par formula.

(5) It is the subject of a remarketing agreement under which an attempt is made to remarket special indebtedness to new purchasers before its presentment for payment to the provider of the credit facility or to the State.

(b) If the aggregate principal amount payable by the State under a credit facility is in excess of the aggregate principal amount of special indebtedness secured by the credit facility, whether as a result of the inclusion in the credit facility of a provision for the payment of interest for a limited period of time or the payment of a redemption premium or for any other reason, then the amount of authorized but unissued bonds or notes and financing contract indebtedness during the term of the credit facility shall not be less than the amount of the excess, unless the payment of the excess is otherwise provided for by agreement of the State executed by the State Treasurer.

"§ 142-71. Other agreements.

The State Treasurer may authorize, execute, obtain or otherwise provide for bond insurance, investment contracts, credit and liquidity facilities, credit enhancement facilities, interest rate swap agreements, and other derivative products, and any other related instruments and matters the State Treasurer determines are desirable in connection with the issuance of special indebtedness. The State Treasurer is authorized to employ and designate any financial consultants, underwriters, fiduciaries, and bond attorneys to be associated with any incurrence or issuance of special indebtedness under this Article as the State Treasurer considers appropriate.

"§ 142-72. Tax exemption.

Special indebtedness shall at all times be free from taxation by the State or any political subdivision or any of their agencies, excepting estate, inheritance, and gift taxes; income taxes on the gain from the transfer of the indebtedness; and franchise taxes. The interest component of any payments made by the State under special indebtedness, including the interest component of any certificates of participation, is not subject to taxation as to income.

"§ 142-73. Investment eligibility.

Special indebtedness are securities or obligations in which all of the following may invest, including capital in their control or belonging to them: public officers, agencies, and public bodies of the State and its political subdivisions; insurance companies, trust companies, investment companies, banks, savings banks, savings and loan associations, credit unions, pension or retirement funds, and other financial institutions engaged in business in the State; and executors, administrators, trustees, and other fiduciaries.

1 Special indebtedness are securities or obligations that may properly and legally be
2 deposited with and received by any officer or agency of the State or political
3 subdivision of the State for any purpose for which the deposit of bonds, notes, or
4 obligations of the State or any political subdivision is now or may later be authorized by
5 law.

6 **"§ 142-74. Procurement of capital facilities.**

7 The provisions of Articles 3, 3B, 3C, 3D, and 8 of Chapter 143 of the General
8 Statutes and any other laws or rules of the State that relate to the acquisition and
9 construction of State property apply to the financing of capital facilities through the use
10 of special indebtedness pursuant to this Article. This section does not apply to the
11 construction and lease-purchase, including leases with an option to purchase at the end
12 of the lease term for a nominal sum, of State office buildings pursuant to proposals
13 submitted before the effective date of this Article in response to requests for proposals,
14 to the extent any of those proposals, as they may be supplemented or amended, are
15 approved by the Department of Administration and any of these leases or lease-purchase
16 agreements are approved by the Council of State in accordance with G.S.
17 143-341(4)d2."

18 **SECTION 1.2.** G.S. 143-341(4) is amended by adding a new
19 sub-subdivision to read:

20 "d2. To purchase or finance the purchase of buildings, utilities,
21 structures, or other facilities or property developments,
22 including streets and landscaping, the acquisition of land,
23 equipment, machinery and furnishings in connection therewith;
24 additions, extensions, enlargements, renovations and
25 improvements to existing buildings, utilities, structures, or other
26 facilities or property developments, including streets and
27 landscaping; land or any interest in land; other infrastructure;
28 furniture, fixtures, equipment, vehicles, machinery and similar
29 items; or any combination of the forgoing, through installment
30 purchase, lease purchase, or other similar type installment
31 financing agreements in the manner and to the extent provided
32 in Article 8 of Chapter 142 of the General Statutes. Any
33 contract entered into or any proceeding instituted contrary to the
34 provisions of this paragraph is voidable in the discretion of the
35 Council of State."

36 **PART II. REPAIR AND RENOVATIONS**

37 **SECTION 2.1.** Repairs and Renovation. – In accordance with G.S. 142-63,
38 as enacted by this act, this section authorizes the issuance or incurrence of special
39 indebtedness in a maximum aggregate principal amount of one hundred fifty million
40 dollars (\$150,000,000) to be used only in accordance with this section for the repair and
41 renovation of State facilities and related infrastructure that are supported from the
42 General Fund. Proceeds of the Repair and Renovation special indebtedness shall be
43 used only for the following types of projects:

- 44 (1) Roof repairs and replacements.

- (2) Structural repairs.
- (3) Repairs and renovations to meet federal and State standards.
- (4) Repairs to electrical, plumbing, and heating, ventilating, and air-conditioning systems.
- (5) Improvements to meet the requirements of the Americans with Disabilities Act, 42 U.S.C. § 12101, et seq., as amended.
- (6) Improvements to meet fire safety needs.
- (7) Improvements to existing facilities for energy efficiency.
- (8) Improvements to remove asbestos, lead paint, and other contaminants, including the removal and replacement of underground storage tanks.
- (9) Improvements and renovations to improve use of existing space.
- (10) Historical restoration.
- (11) Improvements to roads, walks, drives, and utilities infrastructure.
- (12) Drainage and landscape improvements.

Proceeds of the Repair and Renovation special indebtedness shall not be used for new construction or the expansion of the footprint of an existing facility unless required in order to comply with federal or State codes or standards.

Proceeds of the Repair and Renovation special indebtedness shall not be used unless the specific use has been approved by an act of the General Assembly or, if the General Assembly is not in session, the State Treasurer has first consulted with the Joint Legislative Commission on Governmental Operations on the specific uses for which the proceeds shall be used.

In addition, the provisions of this section may be changed from time to time by act of the General Assembly.

Notwithstanding this section, whenever an expenditure is required because of an emergency that poses an imminent threat to public health or public safety, and is either the result of a natural disaster, such as a hurricane or a flood, or the result of an accident or an intentional act, such as an explosion or a wreck, the State Treasurer, with the approval of the Governor, may take action under this section without first consulting with the Joint Legislative Commission on Governmental Operations if the action is determined by the Governor to be related to the emergency. The State Treasurer and the Governor shall report to the Commission on any action taken under this paragraph no later than 30 days after taking the action, and shall identify in the report the emergency, the type of action taken, and how it was related to the emergency.

PART III. CORRECTIONAL FACILITIES ACQUISITION

SECTION 3.1. Acquisition of Correctional Facilities. – In accordance with G.S. 142-63, as enacted by this act, this section authorizes the issuance or incurrence of financing contract indebtedness to be used to acquire two correctional facilities located in Pamlico County and Avery County that the State currently leases.

SECTION 3.2. Pamlico County Correctional Facility. – The State is authorized to acquire the correctional facility located in Pamlico County that the State currently leases from U.S. Corrections Corporation pursuant to the purchase option provision in the lease. Title to these facilities shall be held in the name of the State. The

1 cost of acquiring the Pamlico County correctional facility shall be financed as provided
2 in Article 8 of Chapter 142 of the General Statutes.

3 **SECTION 3.3.** Mountain View Correctional Facility. – The State is
4 authorized to acquire the Mountain View Correctional Facility located in Avery County
5 that the State currently leases from Correctional Properties Trust pursuant to the
6 purchase option provision in the lease. Title to these facilities shall be held in the name
7 of the State. The cost of acquiring the Mountain View Correctional Facility shall be
8 financed as provided in Article 8 of Chapter 142 of the General Statutes.

9 **SECTION 3.4.** Authorization of Financing Contracts. – The State, with the
10 prior approval of the State Treasurer and Council of State as provided in Article 8 of
11 Chapter 142 of the General Statutes, is authorized to execute and deliver one or more
12 financing contracts in order to provide funds to the State to be used, together with any
13 other available funds, to pay the cost of acquiring either or both of the Pamlico County
14 correctional facility and the Mountain View Correctional Facility described in this Part.
15 Notwithstanding the provisions of G.S. 142-63, no maximum principal amount is
16 required to be stated in this Part authorizing the issuance or incurrence of financing
17 contract indebtedness for these purposes.

18 **PART IV. PSYCHIATRIC HOSPITAL CONSTRUCTION**

19 **SECTION 4.1.** Construction of Psychiatric Hospital. – In accordance with
20 G.S. 142-63, as enacted by this act, this section authorizes the issuance or incurrence of
21 financing contract indebtedness in a maximum principal amount of one hundred million
22 dollars (\$100,000,000), which amount shall be reduced by the amount of any special
23 obligation bonds issued to finance the project under Part V of this act, to finance the
24 cost of the project described in Section 4.2 of this Part, subject to the limitations
25 described herein. The financing contract indebtedness shall not be incurred prior to July
26 1, 2004.

27 **SECTION 4.2.** The Project. – The project shall consist of the acquisition,
28 construction, and equipping of an approximately 451,800 square foot, 432-bed new
29 psychiatric hospital.

30 **SECTION 4.3.** Authorization of Financing Contracts. – The State, with the
31 prior approval of the State Treasurer and Council of State, as provided in Article 8 of
32 Chapter 142 of the General Statutes as enacted by this act, is authorized to execute and
33 deliver one or more financing contracts in order to provide funds to the State to be used,
34 together with other available funds, to pay the cost of the project, provided that the
35 aggregate principal amount shall not exceed one hundred million dollars
36 (\$100,000,000), which amount shall be reduced by the amount of any special obligation
37 bonds issued to finance the project under Part V of this act. The State Treasurer may, in
38 his sole discretion, require one or more reports satisfactory to the State Treasurer
39 evidencing the savings expected to be realized from the closure of existing psychiatric
40 hospitals that are to be replaced by the project and the feasibility of the financing of the
41 project.

42 **PART V. SPECIAL OBLIGATION HOSPITAL BONDS**

1 **SECTION 5.1.** Title. – This Part shall be known and may be cited as the
2 "Special Obligation Hospital Bonds Act of 2002." References in this Part to "this act"
3 mean this Part.

4 **SECTION 5.2.** Definitions. – The following definitions apply in this act:

- 5 (1) Bonds. – Special obligation bonds issued by the State pursuant to this
6 act.
- 7 (2) Cost. – Any of the following, without limiting or restricting any proper
8 definition of this term in financing the cost of the project as authorized
9 by this act:
- 10 a. The cost of acquiring, constructing, and equipping the project,
11 including the acquisition of rights-of-way, easements,
12 equipment, furnishings, land, and other interests in real or
13 personal property acquired or used in connection with the
14 project.
- 15 b. The cost of engineering, architectural, and other consulting
16 services in connection with the project as may be required.
- 17 c. Finance charges, reserves for debt service, and other types of
18 reserves required pursuant to the terms of the trust agreement or
19 resolution or related documents, interest before and during
20 construction or acquisition of the project and, if considered
21 advisable by the State Treasurer, for a period not exceeding two
22 years after the estimated date of completion of construction or
23 acquisition.
- 24 d. Administrative expenses and charges.
- 25 e. The cost of bond insurance, investment contracts, credit and
26 liquidity facilities, interest rate swap agreements or other
27 derivative products, financial and legal consultants, and related
28 costs of the incurrence or issuance of the bonds.
- 29 f. The cost of reimbursing the State for any payments made for
30 any cost described above.
- 31 g. Any other costs and expenses necessary or incidental to the
32 purposes of this act.
- 33 (3) Credit facility. – An agreement that:
- 34 a. Is entered into by the State with a bank, savings and loan
35 association, or other banking institution, an insurance company,
36 reinsurance company, surety company or other insurance
37 institution, a corporation, investment banking firm or other
38 investment institution, or any financial institution or other
39 similar provider of a credit facility, which provider may be
40 located within or without the United States of America; and
- 41 b. Provides for prompt payment of all or any part of the principal
42 or purchase price (whether at maturity, presentment or tender
43 for purchase, redemption, or acceleration), redemption
44 premium, if any, and interest with respect to the bonds payable

- on demand or tender by the owner in consideration of the State agreeing to repay the provider of the credit facility in accordance with the terms and provisions of the agreement.
- (4) Fiscal year. – The fiscal year of the State beginning on July 1 of one calendar year and ending on June 30 of the next calendar year.
- (5) Par formula. – A provision or formula adopted by the State to provide for the adjustment, from time to time, of the interest rate or rates borne or provided for by any bonds including any of the following:
- a. A provision providing for an adjustment so that the purchase price of the bonds in the open market would be as close to par as possible.
 - b. A provision providing for an adjustment based upon a percentage or percentages of a prime rate or base rate, which percentages may vary or be applied for different periods of time.
 - c. Any provision that the State Treasurer determines is consistent with this act and will not materially and adversely affect the financial position of the State and the marketing of the bonds at a reasonable interest cost to the State.
- (6) Pledged revenues. – Pledged revenues shall consist of any or all of the following:
- a. The Medicaid and Medicare reimbursements received by the State and allocated for depreciation expense of the project, plus the Medicaid and Medicare reimbursements received by the State and allocated for interest on the debt used to finance the project.
 - b. The funds deposited with the Department of State Treasurer as nontax revenue associated with Disproportionate Share Payments from State institutions for mental disease that are collected pursuant to Title XIX of the Social Security Act, 42 U.S.C. 1396r-4, as amended.
 - c. The revenues generated by the project.
- (7) Project. – The acquisition, construction, and equipping of an approximately 451,800 square foot, 432-bed new psychiatric hospital.
- (8) State. – The State of North Carolina, including any State agency.
- (9) State agency. – Any State agency, institution, board, commission, bureau, council, department, division, officer, or employee of the State. The term does not include counties, municipal corporations, political subdivisions, local boards of education, or other local public bodies.
- (10) State Treasurer or Treasurer. – The incumbent Treasurer, from time to time, of the State.
- (11) Trust agreement. – Any trust agreement or similar instrument or agreement authorizing and securing bonds issued under this act.

1 **SECTION 5.3.** Authorization. – The State Treasurer may, by and with the
2 consent of the Council of State, issue and sell special obligation bonds of the State to
3 pay the cost of the project, in a total principal amount not to exceed one hundred million
4 dollars (\$100,000,000), which maximum principal amount shall be reduced by the
5 amount of any special indebtedness incurred for the project under Part IV of this act.
6 The principal of, premium, if any, and interest on the bonds shall be payable solely from
7 the pledged revenues in accordance with the terms of the resolution or trust agreement
8 authorizing and securing the bonds. The State Treasurer may, in his sole discretion,
9 require one or more reports satisfactory to the State Treasurer evidencing the savings
10 expected to be realized from the closure of existing psychiatric hospitals that are to be
11 replaced by the project and the feasibility of the financing of the project.

12 **SECTION 5.4.** Terms and Conditions. – The bonds may be issued, from
13 time to time, in one or more series, but in no event prior to July 1, 2004. The bonds shall
14 be dated, and may be made redeemable before maturity at the option of the State at any
15 price or prices and upon any terms and conditions, as may be determined by the State
16 Treasurer at the time of the sale of the bonds. The bonds also may be made payable,
17 from time to time, on demand or tender for purchase by the owner upon any terms and
18 conditions as may be determined by the State Treasurer. The bonds shall bear interest at
19 any rate or rates (whether fixed or variable, or any combination thereof, and including,
20 without limitation, any variations as may be permitted pursuant to a par formula) as may
21 be determined by the State Treasurer. Bonds shall mature at any time or times not
22 exceeding 40 years from their date or dates, as may be determined by the Council of
23 State, subject to the limitations provided in this act. The Council of State shall
24 determine the form and manner of execution of the bond, and shall fix the
25 denominations and the places of payment of principal and interest, which may be any
26 bank or trust company within or without the State. If an officer whose signature or
27 facsimile of whose signature appears on any bond ceases to be that officer before the
28 delivery of the bonds, the signature or facsimile is nevertheless valid for all purposes as
29 if the officer had remained in office until the delivery. The Council of State may also
30 provide for the authentication of the bonds by a trustee or fiscal agent. The Council of
31 State may also provide for any other terms, conditions, or matters not inconsistent with
32 the provisions of this act.

33 Bonds may be sold in any manner, either at public or private sale, and for any
34 price as the State Treasurer determines to be for the best interests of the State and to
35 effectuate best the purposes of this act, as long as the sale has been approved by the
36 Council of State. The State Treasurer may authorize, execute, obtain, or otherwise
37 provide for bond insurance, investment agreements, credit and liquidity facilities,
38 interest rate swap agreements, and other derivative products, and any other related
39 instruments as the State Treasurer determines are desirable in connection with the
40 issuance of bonds under this act. The State Treasurer is authorized to employ and
41 designate any financial consultants, underwriters, and bond attorneys to be associated
42 with any bond issue under this act. The proceeds of any bonds shall be used solely for
43 the purposes for which they are issued and shall be disbursed in any manner and under

1 any restrictions the Council of State may provide, in the resolution authorizing the
2 issuance of, or any trust agreement securing, the bonds.

3 Except as otherwise expressly provided in this act, bonds may be issued
4 under this act without obtaining the consent of any department, division, commission,
5 board, body, bureau, or agency of the State, and without any other proceedings or the
6 happening of any conditions or things other than those proceedings, conditions, or
7 things that are specifically required by this act and the provisions of the resolution
8 authorizing the issuance of, or any trust agreement securing, the bonds.

9 **SECTION 5.5. Trust Agreement or Resolution.** – Any bonds issued under
10 the provisions of this act may be secured by a trust agreement by and between the State
11 and a corporate trustee, which may be any trust company or bank having the powers of
12 a trust company within or without the State. The resolution or trust agreement
13 authorizing and securing the bonds shall, subject to the limitations set forth in this act,
14 specify the pledged revenues and shall pledge or assign the pledged revenues to pay the
15 principal of, premium, if any, or interest on the bonds in the manner provided by this
16 act. The resolution or trust agreement may contain any provisions for protecting and
17 enforcing the rights and remedies of the holders of any bonds as may be reasonable and
18 proper and not in violation of law, including covenants setting forth the duties of the
19 State in relation to the purposes to which bond proceeds may be applied, the disposition
20 or pledging of the pledged revenues, the terms and conditions for the issuance of
21 additional bonds, and the custody, safeguarding, and application of all moneys.

22 Any resolution or trust agreement may restrict the individual right of action
23 by an individual owner of bonds. In addition to the foregoing, any resolution or trust
24 agreement may contain any other provisions as the Council of State considers
25 reasonable and proper for the security of the holders of any bonds. Expenses incurred by
26 the State in carrying out the provisions of the resolution or trust agreement may be paid
27 from the pledged revenues as provided for in the resolution or trust agreement.

28 **SECTION 5.6. Pledge of Revenues; Limited Obligations.** – The State is
29 authorized to pledge the pledged revenues to the payment of the principal of, premium,
30 if any, and interest on bonds issued under this act as they become due and payable, and
31 to create and maintain any reserves therefor, and to fulfill the terms of any agreements
32 made with the holders of bonds issued under this act. Notwithstanding the foregoing,
33 any pledged revenues not required to pay the principal of, premium, if any, and interest
34 on the bonds secured by the pledged revenues as they become due and payable, or to
35 create and maintain any reserves for them, or to fulfill the terms of any agreements
36 made with the holders of the bond issued under this act, shall be available to the State
37 for expenditure for any lawful purpose, subject to the terms and provisions of any
38 resolution or trust agreement authorizing and securing the bonds.

39 Any pledge of the pledged revenues made by the State under the provisions
40 of this act shall be set forth in the resolution or trust agreement authorizing the issuance
41 of the bonds. The pledge of these pledged revenues made by the State shall be valid and
42 binding from the time when the pledge is made. All pledged revenues so pledged and
43 thereafter received by the State are immediately subject to the lien of the pledge without
44 any physical delivery or further act, and the lien of the pledge is valid and binding as

1 against all parties having claims of any kind in tort, contract, or otherwise against the
2 State, irrespective of whether the parties have notice of the lien. The resolution or trust
3 agreement by which a pledge is created need not be filed or recorded except in the
4 records of the Council of State.

5 All bonds issued under this act shall be equally and ratably secured by a
6 pledge, charge, and lien upon the pledged revenues pledged to the payment of those
7 bonds, without priority by reason of number, or of dates of bonds, execution, or
8 delivery, in accordance with the provisions of this act and of the resolution or trust
9 agreement authorizing and securing the bonds; except that the State may provide in the
10 resolution or trust agreement that the bonds shall, to the extent and in the manner
11 prescribed in the resolution or trust agreement, be subordinated and junior in standing
12 with respect to the payment of principal of, premium, if any, and interest on any other
13 bonds.

14 All bonds issued under this act shall be special obligations of the State. The
15 principal of, premium, if any, and interest on the bonds shall not be payable from the
16 general funds of the State, nor shall they constitute a legal or equitable pledge, charge,
17 lien or encumbrance upon any of its property or upon any of its income, receipts, or
18 revenues, except the pledged revenues. Neither the credit nor the taxing power of the
19 State is pledged for the payment of the principal of, premium, if any, or interest on the
20 bonds, and no holder of bonds has the right to compel the exercise of the taxing power
21 by the State or the forfeiture of any of its property in connection with any default on the
22 bonds, except for the pledged revenues. Every bond issued under this act shall recite in
23 substance that the principal of, premium, if any, and interest on the bond is payable
24 solely from the pledged revenues and that the State is not obligated to pay the principal,
25 premium, or interest, except from these pledged revenues so pledged.

26 **SECTION 5.7.** Agreement of the State. – The State pledges to and agrees
27 with the holders of any bonds by the State pursuant to this act that as long as any of the
28 bonds are outstanding and unpaid, the State will not limit or alter the rights vested in the
29 State at the time of issuance of the bonds to collect and apply the pledged revenues in
30 the manner provided in the resolution or trust agreement authorizing and securing the
31 bonds to pay the principal of, premium, if any, and interest on the bonds as they become
32 due and payable, and to create and maintain any reserves for payment, and to fulfill the
33 terms of any agreements made with the holders of the bonds. The State will not in any
34 way impair the rights and remedies of the holders of the bonds until the bonds and all
35 costs and expenses in connection with any action or proceedings by or on behalf of the
36 holders of the bonds, are fully paid, met, and discharged.

37 **SECTION 5.8.** Trust Funds. – Notwithstanding any other provisions of law
38 to the contrary, all moneys received pursuant to the authority of this act, including
39 proceeds of the bonds and the pledged revenues, are trust funds to be held and applied
40 solely as provided in this act. The resolution authorizing the issuance of, or any trust
41 agreement securing any bonds issued under this act may provide that any of these
42 moneys may be temporarily invested pending their disbursement and shall provide that
43 any officer with whom, or any bank or trust company with which, the moneys are
44 deposited shall act as trustee of the moneys and shall hold and apply them for the

1 purposes of this act, subject to any limitations this act and the resolution or trust
2 agreement provide. These moneys may be invested in any investment authorized by law
3 for investment of trust funds held by the State Treasurer.

4 **SECTION 5.9. Remedies.** – Any holder of bonds issued under the
5 provisions of this act, and the trustee under any resolution or trust agreement
6 authorizing and securing the bonds, except to the extent the rights given in this act may
7 be restricted by the resolution or trust agreement, may, either at law or in equity, by suit,
8 action, mandamus, or other proceeding, protect and enforce any and all rights under the
9 laws of the State or granted under this act or under the resolution or trust agreement, or
10 under any other contract executed by the Council of State or the State Treasurer
11 pursuant to this act, and may enforce and compel the performance of all duties required
12 by this act or by the resolution or trust agreement to be performed by the State or by any
13 officer of the State.

14 **SECTION 5.10. Investment Securities.** – All bonds and interest coupons
15 appertaining to them issued under this act are investment securities within the meaning
16 of and for all the purposes of Article 8 of Chapter 25 of the General Statutes, whether or
17 not they are of the form and character as to be investment securities under that act,
18 subject only to the provisions of the bonds pertaining to registration.

19 **SECTION 5.11. Bonds Eligible for Investment.** – Bonds issued under the
20 provisions of this act are securities or obligations in which all of the following may
21 invest, including capital in their control or belonging to them: public officers, agencies,
22 and public bodies of the State and its political subdivisions; insurance companies, trust
23 companies, investment companies, banks, savings banks, savings and loan associations,
24 credit unions, pension or retirement funds, and other financial institutions engaged in
25 business in the State; and executors, administrators, trustees, and other fiduciaries.
26 Bonds issued under the provisions of this act are securities or obligations that may
27 properly and legally be deposited with and received by any officer or agency of the
28 State or political subdivision of the State for any purpose for which the deposit of
29 bonds, notes, or obligations of the State or any political subdivision is now or may later
30 be authorized by law.

31 **SECTION 5.12. Refunding Bonds.** – By and with the consent of the Council
32 of State, the State Treasurer is authorized to issue and sell refunding bonds for the
33 purpose of refunding any bonds issued under this act and then outstanding, including
34 payment of any redemption premium on them and any interest accrued or to accrue to
35 the date of redemption of the refunded bonds. Refunding bonds may be issued at any
36 time prior to the final maturity of the debt or obligation to be refunded. The principal of,
37 premium, if any, and interest on the refunding bonds shall be payable solely from funds
38 provided under this act for payment of bonds.

39 The proceeds from the sale of any refunding bonds shall be applied to the
40 immediate payment and retirement of the obligations being refunded or, if not required
41 for the immediate payment of the obligations being refunded, the proceeds shall be
42 deposited in trust to provide for the payment and retirement of the obligations being
43 refunded and to pay any expenses incurred in connection with the refunding. Money in
44 a trust fund may be invested in (i) direct obligations of the United States government,

(ii) obligations the principal of and interest on which are guaranteed by the United States government, (iii) to the extent then permitted by law, obligations of any agency or instrumentality of the United States government, or (iv) certificates of deposit issued by a bank or trust company located in the State if the certificates are secured by a pledge of the obligations described in (i), (ii), or (iii) above having an aggregate market value, exclusive of accrued interest, equal at least to the principal amount of the certificates so secured. This section does not limit the duration of any deposit in trust for the retirement of obligations being refunded but that have not matured and are not presently redeemable, or if presently redeemable, have not been called for redemption.

The issuance of refunding bonds, their maturities and other details, the rights of their holders, and the rights, duties, and obligations of the State in respect of them shall be governed by the provisions of this act that relate to the issuance of bonds, insofar as those provisions are appropriate.

SECTION 5.13. Officers and Employees Not Liable. – No member of the Council of State or officer or employee of the State shall be subject to any personal liability or accountability by reason of the execution or issuance of any bonds under this act.

SECTION 5.14. Tax exemption. – Any bonds issued by the State under the provisions of this act shall at all times be free from taxation by the State or any political subdivision or any of their agencies, excepting estate, inheritance, and gift taxes; income taxes on the gain from the transfer of the bonds; and franchise taxes. Interest on the bonds is not subject to taxation as income.

PART VI. GENERAL PROVISIONS FOR PSYCHIATRIC HOSPITAL

SECTION 6.1. The Secretary of Health and Human Services shall maintain all existing educational and research programs in psychiatry and psychology conducted by the University of North Carolina School of Medicine at Dorothea Dix Hospital, unless the programs are otherwise modified by the University of North Carolina School of Medicine. The University of North Carolina School of Medicine shall retain authority over all educational and research programs in psychiatry and psychology conducted at the new psychiatric hospital authorized under this act. The Secretary shall consult with the University of North Carolina School of Medicine in programmatic, operational, and facility planning of the new psychiatric hospital to ensure appropriate patient treatment and continuation of educational and research programs conducted by the University of North Carolina School of Medicine.

SECTION 6.2. Part 3 of Article 8 of Chapter 153A of the General Statutes is amended by adding the following new section to read:

"§ 153A-178. Disposition of county property for a State psychiatric hospital.

When the Secretary of Health and Human Services selects a county for the location of the new State psychiatric hospital as authorized by law, the county selected for the location of the new State psychiatric hospital shall have the power under the general law to acquire real and personal property and convey it to the State under G.S. 160A-24 or other applicable law for use as a psychiatric hospital. The county may acquire the property by eminent domain, and such power under this section is supplementary to any other power the county may have to take property by eminent domain.'

1 **SECTION 6.3.** G.S. 143-15.3D is amended by adding the following new
2 subsection to read:

3 "(c) Notwithstanding G.S. 143-18, any nonrecurring savings in State
4 appropriations realized from the closure of Dorothea Dix Hospital and John Umstead
5 Hospital that are in excess of the cost of operating and maintaining the new State
6 psychiatric hospital shall not revert to the General Fund but shall be placed in the Trust
7 Fund and shall be used for the purposes authorized in this section. Notwithstanding G.S.
8 143-18, recurring savings realized from the closure of Dorothea Dix Hospital and John
9 Umstead Hospital shall not revert to the General Fund but shall be retained by the
10 Department of Health and Human Services and used for the purposes of subsections
11 (b)(2) and (b)(3) of this section and for the repayment of debt service on financing
12 contract indebtedness authorized pursuant to Article 8 of Chapter 142 of the General
13 Statutes for the construction of a new State psychiatric hospital."

14 **SECTION 6.4.(a)** Dorothea Dix Hospital Property Study Commission. – If
15 the State-owned real property encompassing the Dorothea Dix Hospital campus is not
16 transferred to another State agency or agencies prior to the sale of any or all of the
17 property to a nongovernmental entity, options for such sale shall be considered by the
18 Dorothea Dix Hospital Property Study Commission. The Commission shall make
19 recommendations on the options for sale of the property to the Joint Legislative
20 Commission on Governmental Operations prior to any sale of any or all parts of the
21 property.

22 **SECTION 6.4.(b)** Creation and Membership. – There is hereby created the
23 Dorothea Dix Hospital Property Study Commission. The Commission shall consist of
24 nine members, four of which shall be appointed by the President Pro Tempore of the
25 Senate and four of which shall be appointed by the Speaker of the House of
26 Representatives. The Secretary of Health and Human Services shall serve as an ex
27 officio member of the Commission.

28 **SECTION 6.5.** Notwithstanding any other provisions of law, in fiscal year
29 2002-2003 the Department of Health and Human Services shall use up to two million
30 dollars (\$2,000,000) of funds available to the Department for the purpose of planning
31 and preliminary design through the schematic phase of replacement hospitals for Cherry
32 and Broughton psychiatric hospitals. The Division of Mental Health, Developmental
33 Disabilities and Substance Abuse Services shall locate the replacement hospitals in
34 Goldsboro and Morganton to serve the Eastern and Western regions of the State.

35 **PART VII. LOCAL GOVERNMENT SPECIAL OBLIGATION BONDS**

36 **SECTION 7.1.** G.S. 159I-30(a) reads as rewritten:

37 "(a) Authorization. – Any unit of local government may borrow money for the
38 purpose of financing or refinancing its cost of the acquisition or construction of a
39 project and may issue special obligation bonds and notes, including bond anticipation
40 notes and renewal notes, pursuant to the provisions of this section and the applicable
41 provisions of this Chapter for this purpose. ~~As used in this section, the term 'project' has~~
42 ~~the meaning provided in G.S. 159I-3 and also includes any of the following as defined~~
43 ~~in S.L. 1998-132: water supply systems, water conservation projects, water reuse~~
44 ~~projects, wastewater collection systems, and wastewater treatment works."~~

SECTION 7.2. G.S. 159I-30(g) reads as rewritten:

"(g) Definitions. – As used The following definitions apply in this section:

(1) ~~"Credit facility" means an~~Credit facility. – An agreement entered into by the unit with a bank, a savings and loan association or other banking institution, association, or another banking institution; an insurance company, a reinsurance company, a surety company or other company, or another insurance institution, institution; a corporation, an investment banking firm or other firm, or another investment institution, institution; or any financial ~~institution~~ institution, providing for prompt payment of all or any part of the principal, or purchase price (whether at maturity, presentment, or tender for purchase, redemption, or acceleration), redemption premium, if any, and interest on any bonds or notes payable on demand or tender by the owner, in consideration of the unit agreeing to repay the provider of the credit facility in accordance with the terms and provisions of the agreement; the provider of any credit facility may be located either within or without the United States of America.

(2) ~~"Par formula" means any~~Par formula. – Any provision or formula adopted by the unit to provide for the adjustment, from time to time of the interest rate or rates borne by any bonds or notes including:

- a. A provision providing for such adjustment so that the purchase price of such bonds or notes in the open market would be as close to par as possible;
- b. A provision providing for such adjustment based upon a percentage or percentages of a prime rate or base rate, which percentage or percentages may vary or be applied for different periods of time; or
- c. Any other provision as the unit may determine to be consistent with this section and the applicable provisions of this Chapter and does not materially and adversely affect the financial position of the unit and the marketing of the bonds or notes at a reasonable interest cost to the unit.

(3) Project. – Any of the following:

- a. A project as defined in G.S. 159I-3.
- b. Any of the following as defined in S.L. 1998-132: water supply systems, water conservation projects, water reuse projects, wastewater collection systems, and wastewater treatment works.
- c. With respect to a county, any project or purpose authorized or described in G.S. 159-48(b) or (c).
- d. With respect to a city, any project or purpose authorized or described in G.S. 159-48(b) or (d).

1 (g1) Credit Facility. – The obligation of a unit of local government under a credit
2 facility to repay any drawing thereunder may be made payable and otherwise secured, to
3 the extent applicable, as provided in this section."

4 **SECTION 7.3.** G.S. 160A-543 reads as rewritten:

5 **"§ 160A-543. Bonds authorized.**

6 A city may ~~issue its general obligation bonds under the Local Government Bond Act~~
7 incur debt under general law to finance services, facilities or functions provided within a
8 service district. If a proposed general obligation bond issue is required by law to be
9 submitted to and approved by the voters of the city, and if the proceeds of the proposed
10 bond issue are to be used in connection with a service that is or, if the bond issue is
11 approved, will be provided only for one or more service districts or at a higher level in
12 service districts than city wide, the proposed bond issue must be approved concurrently
13 by a majority of those voting throughout the entire city and by a majority of the total of
14 those voting in all of the affected or to be affected service districts."

15 **PART VIII. GENERAL PROVISIONS**

16 **SECTION 8.1.** Interpretation of Act. (a) Additional Method. – This act
17 provides an additional and alternative method for the doing of the things authorized by
18 this act and shall be regarded as supplemental and additional to powers conferred by
19 other laws. Except where expressly provided, this act shall not be regarded as in
20 derogation of any powers now existing. The authority granted in this act is in addition to
21 other laws now or hereinafter enacted authorizing the State to issue or incur
22 indebtedness.

23 **SECTION 8.1.(b)** Statutory References. – References in this act to specific
24 sections or Chapters of the General Statutes are intended to be references to those
25 sections or Chapters as they may be amended, from time to time, by the General
26 Assembly.

27 **SECTION 8.1.(c)** Liberal Construction. – This act, being necessary for the
28 health and welfare of the people of the State, shall be liberally construed to effect its
29 purposes.

30 **SECTION 8.1.(d)** Severability. – If any provision of this act or its
31 application to any person or circumstance is held invalid, that invalidity does not affect
32 other provisions or applications of the act that can be given effect without the invalid
33 provision or application, and to this end the provisions of this act are severable.

34 **SECTION 8.2.** Effective Date. – This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

3

HOUSE BILL 1518
Committee Substitute Favorable 7/24/02
Senate Appropriations/Base Budget Committee Substitute Adopted 9/30/02

Short Title: DOT Contracts.

(Public)

Sponsors:

Referred to:

June 5, 2002

A BILL TO BE ENTITLED

AN ACT TO INCREASE THE INFORMAL BID LIMIT FOR DEPARTMENT OF
TRANSPORTATION PROJECTS, TO MODIFY THE CURRENT
AUTHORIZATION OF THE DEPARTMENT OF TRANSPORTATION TO
AWARD DESIGN-BUILD CONTRACTS, AND CONCERNING CONTRACT
REQUIREMENTS FOR IRON USED IN DOT PROJECTS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 136-28.1 reads as rewritten:

"§ 136-28.1. Letting of contracts to bidders after advertisement; exceptions.

(a) All contracts over ~~eight hundred thousand dollars (\$800,000)~~ one million two hundred thousand dollars (\$1,200,000) that the Department of Transportation may let for construction or repair necessary to carry out the provisions of this Chapter shall be let to a responsible bidder after public advertising under rules and regulations to be made and published by the Department of Transportation. The right to reject any and all bids shall be reserved to the Board of Transportation. Contracts for construction or repair for federal aid projects entered into pursuant to this section shall not contain the standardized contract clauses prescribed by 23 U.S.C. § 112(e) and 23 C.F.R. § 635.131(a) for differing site conditions, suspensions of work ordered by the engineer or significant changes in the character of the work. The Department of Transportation shall use only the contract provisions provided in the North Carolina Department of Transportation, Standard Specifications for Roads and Structures, January 1, 1984, except as each may be changed or provided for by rule adopted by the Board of Transportation in accordance with the Administrative Procedure Act.

(b) In those cases in which the amount of work to be let to contract for highway construction, maintenance, or repair is ~~eight hundred thousand dollars (\$800,000)~~ one million two hundred thousand dollars (\$1,200,000) or less, at least three informal bids shall be solicited. The term "informal bids" is defined as bids in writing, received pursuant to a written request, without public advertising. All such contracts shall be

1 awarded to the lowest responsible bidder. The Secretary of Transportation shall keep a
2 record of all bids submitted, which record shall be subject to public inspection at any
3 time after the bids are opened.

4 (c) The construction, maintenance, and repair of ferryboats and all other marine
5 floating equipment and the construction and repair of all types of docks by the
6 Department of Transportation shall be deemed highway construction, maintenance, or
7 repair for the purpose of G.S. 136-28.1 and Chapter 44A and Article 1 of Chapter 143,
8 "The Executive Budget Act." In cases of a written determination by the Secretary of
9 Transportation that the requirement for compatibility does not make public advertising
10 feasible for the repair of ferryboats, the public advertising as well as the soliciting of
11 informal bids may be waived.

12 (d) The construction, maintenance, and repair of the highway rest area buildings
13 and facilities, weight stations and the Department of Transportation's participation in the
14 construction of welcome center buildings shall be deemed highway construction,
15 maintenance, or repair for the purpose of G.S. 136-28.1 and G.S. 136-28.3 and Article 1
16 of Chapter 143 of the General Statutes, "The Executive Budget Act."

17 (e) The Department of Transportation may enter into contracts for construction,
18 maintenance, or repair without complying with the bidding requirements of this section
19 upon a determination of the Secretary of Transportation or the State Highway
20 Administrator that an emergency exists and that it is not feasible or not in the public
21 interest for the Department of Transportation to comply with the bidding requirements.

22 (f) Notwithstanding any other provision of law, the Department of
23 Transportation may solicit proposals under rules and regulations adopted by the
24 Department of Transportation for all contracts for professional engineering services and
25 other kinds of professional or specialized services necessary in connection with
26 highway construction, maintenance, or repair. In order to promote engineering and
27 design quality and ensure maximum competition by professional firms of all sizes, the
28 Department may establish fiscal guidelines and limitations necessary to promote
29 cost-efficiencies in overhead, salary, and expense reimbursement rates. The right to
30 reject any and all proposals is reserved to the Board of Transportation.

31 (g) The Department of Transportation may enter into contracts for research and
32 development with educational institutions and nonprofit organizations without soliciting
33 bids or proposals.

34 (h) The Department of Transportation may enter into contracts for applied
35 research and experimental work without soliciting bids or proposals; provided, however,
36 that if the research or work is for the purpose of testing equipment, materials, or
37 supplies, the provisions of Article 3 of Chapter 143 of the General Statutes shall apply.
38 The Department of Transportation is encouraged to solicit proposals when contracts are
39 entered into with private firms when it is in the public interest to do so.

40 (i) The Department of Transportation may negotiate and enter into contracts with
41 public utility companies for the lease, purchase, installation, and maintenance of
42 generators for electricity for its ferry repair facilities.

43 ~~(j) Notwithstanding any other provision of law, the Board of Transportation may~~
44 ~~award up to three contracts annually for construction of transportation projects on a~~

1 ~~design-build basis. These contracts may be awarded after a determination by the~~
2 ~~Department of Transportation that delivery of the projects must be expedited and that it~~
3 ~~is not in the public interest to comply with normal design and construction contracting~~
4 ~~procedures. Prior to the award of a design-build contract, the Secretary of~~
5 ~~Transportation shall report to the Joint Legislative Transportation Oversight Committee~~
6 ~~and to the Joint Legislative Commission on Governmental Operations on the nature and~~
7 ~~scope of the project and the reasons an award on a design-build basis will best serve the~~
8 ~~public interest."~~

9 SECTION 2. G.S. 136-28.11 reads as rewritten:

10 **"§ 136-28.11. Design-build construction of transportation projects.**

11 (a) Design-Build Contracts Authorized. – Notwithstanding any other provision of
12 law, the Board of Transportation may award ~~up to three~~ contracts ~~annually for 10~~
13 projects in fiscal year 2002-2003, and 25 projects in fiscal years 2003-2004, 2004-2005,
14 2005-2006, 2006-2007, 2007-2008, and 2008-2009 for construction of transportation
15 projects on a design-build basis.

16 (b) Design-Build Contract Amounts; Basis of Award. – The Department may
17 award contracts for the construction of transportation projects on a design-build basis of
18 any amount. The Department shall endeavor to ensure design-build projects are awarded
19 on a basis to maximize participation, competition, and cost benefit. On any project for
20 which the Department proposes to use the design-build contracting method, the
21 Department shall attempt to structure and size the contracts for the project in order that
22 contracting firms and engineering firms based in North Carolina have a fair and equal
23 opportunity to compete for the contracts.

24 (c) Disadvantaged Business Participation Goals. – The provisions of G.S.
25 136-28.4 and 49 C.F.R. Part 26 shall apply to the award of contracts under this section.

26 (d) Findings Required. – These contracts may be awarded after a determination
27 by the Department of Transportation that delivery of the projects must be expedited and
28 that it is not in the public interest to comply with normal design and construction
29 contracting procedures.

30 (e) Reporting Requirements. – The Department, for any proposed design-build
31 project projected to have a construction cost in excess of one hundred million dollars
32 (\$100,000,000), shall present to the Joint Legislative Transportation Oversight
33 Committee information on the scope and nature of the project and the reasons the
34 development of the project on a design-build basis will best serve the public interest.
35 Prior to the award of a design-build contract, the Secretary of Transportation shall report
36 to the Joint Legislative Transportation Oversight Committee and to the Joint Legislative
37 Commission on Governmental Operations on the nature and scope of the project and the
38 reasons an award on a design-build basis will best serve the public interest."

39 SECTION 3. G.S. 136-28.7 reads as rewritten:

40 **"§ 136-28.7. Contract requirements relating to construction materials.**

41 (a) The Department of Transportation shall require that every contract for
42 construction or repair necessary to carry out the provisions of this Chapter shall contain
43 a provision requiring that all steel and ~~element~~ iron permanently incorporated into the
44 construction or repair project be produced in the United States.

1 (b) Subsection (a) shall not apply whenever the Department of Transportation
2 determines in writing that this provision required by subsection (a) cannot be complied
3 with because such products are not produced in the United States in sufficient quantities
4 to meet the requirements of such contracts or cannot be complied with because the cost
5 of such products produced in the United States unreasonably exceeds other such
6 products.

7 (c) The Department of Transportation shall apply this section consistent with the
8 requirements in 23 C.F.R. § 635.410(b)(4).

9 (d) The Department of Transportation shall not authorize, provide for, or make
10 payments to any person pursuant to any contract containing the provision required by
11 subsection (a) unless such person has fully complied with such provision."

12 **SECTION 4.** This act is effective when it becomes law.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

H

1

HOUSE RESOLUTION 1810

Sponsors: Representative Ellis.

Referred to: Rules, Calendar, and Operations of the House.

September 30, 2002

1 A HOUSE RESOLUTION CALLING ON THE SPEAKER TO ALLOW FLOOR
2 DEBATE AND ACTION ON SENATE BILL 1008, BAN VIDEO POKER.

3 Whereas, the Senate has passed Senate Bill 1008, AN ACT TO PROHIBIT
4 THE POSSESSION OR OPERATION OF VIDEO GAMING MACHINES EXCEPT
5 BY A FEDERALLY RECOGNIZED INDIAN TRIBE AS AUTHORIZED BY THE
6 INDIAN GAMING REGULATORY ACT AND A VALID TRIBAL-STATE
7 COMPACT; and

8 Whereas, the bill has been endorsed by all 100 Sheriffs; and

9 Whereas, the bill passed the Senate by an overwhelming margin after several
10 years of study; and

11 Whereas, the bill currently resides in the House Rules Committee; and

12 Whereas, time is available to debate this issue of high public importance;

13 Now, therefore,

14 Be it resolved by the House of Representatives:

15 **SECTION 1.** The Speaker is requested to allow floor debate and action on
16 Senate Bill 1008.

17 **SECTION 2.** This resolution is effective upon adoption.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

4

SENATE BILL 832
Finance Committee Substitute Adopted 12/5/01
Third Edition Engrossed 12/6/01
House Committee Substitute Favorable 9/30/02

Short Title: Small Business Contractor Initiative/Funds.

(Public)

Sponsors:

Referred to:

April 3, 2001

1 A BILL TO BE ENTITLED
2 AN ACT TO PROVIDE FOR CONTRACT FINANCING AND SURETY BONDS
3 FOR SMALL BUSINESSES THAT CONTRACT WITH GOVERNMENTAL
4 AGENCIES.

5 The General Assembly of North Carolina enacts:

6 SECTION 1. Article 10 of Chapter 143B of the General Statutes is amended
7 by adding a new Part to read:

8 "Part 18. Small Business Contractor Act.

9 "§ 143B-472.75. Purpose and intent.

10 The purpose and intent of this Part is to foster economic development and the
11 creation of jobs by providing financial assistance to financially responsible small
12 businesses that are unable to obtain adequate financing and bonding assistance in
13 connection with contracts.

14 "§ 143B-472.76. Definitions.

15 The following definitions apply in this Part:

- 16 (1) Authority. – The North Carolina Small Business Contractor Authority
17 created in this Part.
18 (2) Internal Revenue Code. – The Code as defined in G.S. 105-228.90.
19 (3) Contract term. – The term of a contract, including the maintenance or
20 warranty period required by the contract and the period during which
21 the surety may be liable for latent defects.
22 (4) Government agency. – The federal government, the State, an agency,
23 or a political subdivision of the federal government or the State, or a
24 utility regulated by the North Carolina Utilities Commission.
25 (5) Related party. – A party related to the applicant in a manner that would
26 require an attribution of stock to or from the party under section 318 of
27 the Internal Revenue Code.

1 (6) Secretary. – The Secretary of Commerce.

2 **"§ 143B-472.77. Authority creation; powers.**

3 (a) Creation. – The North Carolina Small Business Contractor Authority is
4 created within the Department of Commerce.

5 (b) Membership. – The Authority consists of 11 members appointed as follows:

6 (1) Four members appointed by the General Assembly upon the
7 recommendation of the President Pro Tempore of the Senate, one of
8 whom has experience in underwriting surety bonds.

9 (2) Four members appointed by the General Assembly upon the
10 recommendation of the Speaker of the House of Representatives, one
11 of whom is a present or former governmental employee with
12 experience in administering public contracts.

13 (3) Three members appointed by the Governor, one of whom is a licensed
14 general contractor and one of whom is experienced in working for
15 private, nonprofit, small, or underutilized businesses.

16 (c) Terms. – Members serve four-year terms, except initial appointments. There
17 is no prohibition against reappointment for subsequent terms. Initial appointments shall
18 begin on January 1, 2003. Each appointing authority shall designate two of its initial
19 appointments to serve four-year terms and the remainder of its initial appointments to
20 serve three-year terms.

21 (d) Chair. – The chair shall be elected annually by the members of the Authority
22 from the membership of the Authority and shall be a voting member.

23 (e) Compensation. – The Authority members shall receive no salary as a result of
24 serving on the Authority but are entitled to per diem and allowances in accordance with
25 G.S. 138-5.

26 (f) Meetings. – The Secretary shall convene the first meeting of the Authority
27 within 60 days after January 1, 2003. Meetings shall be held as necessary as determined
28 by the Authority.

29 (g) Quorum. – A majority of the members of the Authority constitutes a quorum
30 for the transaction of business. A vacancy in the membership of the Authority does not
31 impair the right of the quorum to exercise all rights and to perform all duties of the
32 Authority.

33 (h) Vacancies. – A vacancy on the Authority resulting from the resignation of a
34 member or otherwise is filled in the same manner in which the original appointment was
35 made, for the balance of the unexpired term. Vacancies in appointments made by the
36 General Assembly shall be filled in accordance with G.S. 120-122.

37 (i) Removal. – Members may be removed in accordance with G.S. 143B-13. A
38 member who misses three consecutive meetings of the Authority may be removed for
39 nonfeasance.

40 (j) Powers and Duties. – The Authority has the following powers and duties:

41 (1) To accept grants, loans, contributions, and services.

42 (2) To employ staff, procure supplies, services, and property, and enter
43 into contracts, leases, or other legal agreements, including the
44 procurement of reinsurance, to carry out the purposes of the Authority.

- (3) To acquire, manage, operate, dispose of, or otherwise deal with property, take assignments of rentals and leases, and enter into contracts, leases, agreements, and arrangements that are necessary or incidental to the performance of the duties of the Authority, upon terms and conditions that it considers appropriate.
- (4) To specify the form and content of applications, guaranty agreements, or agreements necessary to fulfill the purposes of this Part.
- (5) To acquire or take assignments of documents executed, obtained, or delivered in connection with assistance provided by the Authority under this Part.
- (6) To fix, determine, charge, and collect any premiums, fees, charges, costs, and expenses in connection with any assistance provided by the Authority under this Part.
- (7) To adopt rules, in accordance with Chapter 150B of the General Statutes, to implement this Part.
- (8) To take any other action necessary to carry out its purposes.
- (9) To report quarterly to the Joint Legislative Commission on Governmental Operations on the activities of the Authority, including the amount of rates, sureties, and bonds.

(k) Limitations. – Notwithstanding any other provision of this Part, the Authority may not provide financial assistance that constitutes raising money on the credit of the State or pledging the faith and credit or the taxing power of the State directly or indirectly for the payment of any debt. Before providing financial assistance to an applicant under this Part, the Authority must obtain the written certification of the Attorney General that the proposed financial assistance does not constitute raising money on the credit of the State or pledging the faith of the State directly or indirectly for the payment of any debt as provided in Section 3(2) of Article V of the North Carolina Constitution.

"§ 143B-472.78. Eligibility.

To qualify for assistance under this Part, an applicant must meet all of the following requirements:

- (1) The applicant must be a small business concern that meets the applicable size standards established by the United States Small Business Administration for business loans based on the industry in which the concern, including its affiliates, is primarily engaged and based on the industry in which the concern, not including its affiliates, is primarily engaged. In addition, in the case of an application for bonding assistance, the applicant, including its affiliates, may not have receipts for construction and service contracts in excess of the maximum amount established by the United States Small Business Administration for surety bond guarantee assistance.
- (2) The applicant must be an individual, or be controlled by one or more individuals, with a reputation for financial responsibility, as determined from creditors, employers, and other individuals with

personal knowledge. If the applicant is other than a sole proprietorship, at least seventy percent (70%) of the business must be owned by individuals with a reputation for financial responsibility.

(3) The applicant must be a resident of this State or be incorporated in this State and must have its principal place of business in this State.

(4) The applicant must demonstrate to the satisfaction of the Authority that it has been unable to obtain adequate financing or bonding on reasonable terms through an authorized company. If the applicant is applying for a guarantee of a loan, the applicant must have applied for and been denied a loan by a financial institution.

"§ 143B-472.79. Small Business Contract Financing Fund.

(a) Creation and Use. – The Small Business Contract Financing Fund is created as a special revenue fund. Revenue in the Fund does not revert at the end of a fiscal year, and interest and other investment income earned by the Fund accrues to the Fund. The Authority shall use the Fund to make direct loans and guaranty payments required by defaults and to pay the portion of the administrative expenses of the Authority related to making these loans and payments.

(b) Content. – The Small Business Contract Financing Fund consists of all of the following revenue:

(1) Funds appropriated to the Fund by the State.

(2) Repayments of principal of and interest on direct loans.

(3) Premiums, fees, and any other amounts received by the Authority with respect to financial assistance provided by the Authority.

(4) Proceeds designated by the Authority from the sale, lease, or other disposition of property or contracts held or acquired by the Authority.

(5) Investment income of the Fund.

(6) Any other moneys made available to the Fund.

(c) Emergency Funds. – If the Authority and the Secretary determine that the Small Business Contract Financing Fund does not have adequate funds, the Authority may request funding from the Contingency and Emergency Fund.

"§ 143B-472.80. Contract performance assistance authorized.

(a) Type. – The Authority is authorized to provide the following contract performance assistance:

(1) A guarantee of a loan made to the applicant.

(2) If the applicant demonstrates to the satisfaction of the Authority that it is unable to obtain money from any other source, a loan to the applicant.

(b) Qualification. – The Authority shall not lend money to an applicant or guarantee a loan unless all of the following requirements are met:

(1) The applicant meets the requirements of G.S. 143B-472.78.

(2) The loan is to be used to perform an identified contract, of which the majority of funding is provided by a government agency or a combination of government agencies.

(3) The loan is to be used for working capital or equipment needed to perform the contract, the cost of which can be repaid from contract proceeds, if the Authority has entered into an agreement with the applicant necessary to secure the loan or guaranty.

(c) Terms and Conditions. – The Authority shall set the terms and conditions for loans and for the guarantee of loans. When the Authority lends money from the Small Business Contract Financing Fund, it shall prepare loan documents that include all of the following:

(1) The rate of interest on the loan, which shall not exceed any applicable statutory limit for a loan of the same type.

(2) A payment schedule that provides money to the applicant in the amounts and at the times that the applicant needs the money to perform the contract for which the loan is made.

(3) A requirement that, before each advance of money is released to the applicant, the applicant and the Authority must co-sign the request for the money.

(4) Provisions for repayment of the loan.

(5) Any other provision the Authority considers necessary to secure the loan, including an assignment of, or a lien on, payment under the contract, if allowable.

(d) Maturity. – A loan made by the Authority shall mature not later than the date the applicant is to receive full payment under the identified contract, unless the Authority determines that a later maturity date is required to fulfill the purposes of this Part.

(e) Diversity. – In selecting applicants for assistance, the Authority must consider the need to serve all geographic and political areas and subdivisions of the State.

(f) Limitation. – The total amount of loan guarantees and loans issued to each recipient during a fiscal year shall not exceed fifteen percent (15%) of the amount of money in the Fund as of the beginning of that fiscal year.

"§ 143B-472.81. Small Business Surety Bond Fund.

(a) Creation and Use. – The Small Business Surety Bond Fund is created as a special revenue fund. Revenue in the Fund does not revert at the end of a fiscal year, and interest and other investment income earned by the Fund accrues to the Fund. The Authority shall use the Fund for the purposes of and to pay the expenses of the Authority related to providing bonding assistance.

(b) Content. – The Small Business Surety Bond Fund consists of all of the following revenue:

(1) Funds appropriated to the Fund by the State.

(2) Premiums, fees, and any other amounts received by the Authority with respect to bonding assistance provided by the Authority.

(3) Proceeds designated by the Authority from the sale, lease, or other disposition of property or contracts held or acquired by the Authority.

(4) Investment income of the Fund.

(5) Any other moneys made available to the Fund.

1 **"§ 143B-472.82. Bonding assistance authorized.**

2 (a) Guaranty. – Subject to the restrictions of this Part, the Authority, on
3 application, may guarantee a surety for losses incurred under a bid bond, payment bond,
4 or performance bond on an applicant's contract, of which the majority of the funding is
5 provided by a government agency or a combination of government agencies, up to
6 ninety percent (90%) of the surety's losses, or nine hundred thousand dollars
7 (\$900,000), whichever is less. The term of a guaranty under this section shall not exceed
8 the contract term. The Authority may vary the terms and conditions of the guaranty
9 from surety to surety, based on the Authority's history of experience with the surety and
10 other factors that the Authority considers relevant.

11 (b) Notice. – When the Authority provides a guaranty under this section with
12 respect to a contract, it must give the government agencies that are parties to the
13 contract written notice of the guaranty.

14 (c) Bonds. – The Authority may execute and perform bid bonds, performance
15 bonds, and payment bonds as a surety for the benefit of an applicant in connection with
16 a contract, of which the majority of the funding is provided by a government agency or
17 a combination of government agencies.

18 (d) Obligation of State. – The total amount of guarantees issued and bonds
19 executed shall not exceed ninety percent (90%) of the amount of money in the Small
20 Business Surety Bond Fund. The Authority shall not pledge any money other than
21 money in the Fund for payment of a loss or bond. No action by the Authority constitutes
22 the creation of a debt secured by a pledge of the taxing power or the faith and credit of
23 the State or any of its political subdivisions. The face of each guarantee issued or bond
24 executed shall contain a statement that the Authority is obligated to pay the guarantee or
25 bond only from the revenue in the Small Business Surety Bond Fund and that neither
26 the taxing power nor the faith and credit of the State or any of its political subdivisions
27 is pledged in payment of the guarantee or bond. Nothing in this subsection limits the
28 ability of the Authority to obtain reinsurance.

29 (e) Limitation. – The total amount of bonding assistance provided to each
30 recipient during a fiscal year shall not exceed fifteen percent (15%) of the amount of
31 money in the Fund as of the beginning of that fiscal year.

32 (f) Payment. – If the Authority considers it prudent, it may require that payment
33 be made either to the contractor and lending institution or to the bonding authority.

34 **"§ 143B-472.83. Bonding assistance conditions.**

35 (a) Requirements. – To obtain bonding assistance under this Part, an applicant
36 must meet the eligibility requirements of G.S. 143B-472.78 and must demonstrate to the
37 satisfaction of the Authority that all of the following apply:

38 (1) A bond is required in order to bid on a contract or to serve as a prime
39 contractor or subcontractor.

40 (2) A bond is not obtainable on reasonable terms and conditions without
41 assistance under this Part.

42 (3) The applicant will not subcontract more than seventy-five percent
43 (75%) of the face value of the contract.

1 **(b) Default.** – If an applicant or a person that is a related party with respect to the
2 applicant has ever defaulted on a bond or guaranty provided by the Authority, the
3 Authority may approve a guaranty or bond under this Part only if one of the following
4 applies:

5 (1) Five years have elapsed since the time of the default.

6 (2) Every default by the applicant or related party in any program
7 administered by the Authority has been cured.

8 **(c) Economic Effect.** – Before issuing a guaranty or bond, the Authority must
9 determine that the contract for which a bond is sought to be guaranteed or issued has a
10 substantial economic effect. To determine the economic effect of a contract, the
11 Authority must consider all of the following:

12 (1) The amount of the guaranty obligation.

13 (2) The terms of the bond to be guaranteed.

14 (3) The number of new jobs that will be created by the contract to be
15 bonded.

16 (4) Any other factor that the Authority considers relevant.

17 **"§ 143B-472.84. Surety bonding line.**

18 The Authority may, on application, establish a surety bonding line in order to issue
19 or guarantee multiple bonds to an applicant within preapproved terms, conditions, and
20 limitations.

21 **"§ 143B-472.85. Application.**

22 To apply for assistance from the Authority under this Part, an applicant and, where
23 applicable, a surety must submit to the Authority an application on a form prescribed by
24 the Authority. The application must include any information and documentation the
25 Authority considers necessary to enable the Authority to evaluate the application in
26 accordance with this Part. The Authority may require an applicant to provide an audited
27 balance sheet unless the Authority determines that such a requirement is not necessary
28 or appropriate to fulfill the purposes of this Part.

29 **"§ 143B-472.86. Premiums and fees.**

30 **(a) Amount.** – The Authority shall by rule set the premiums and fees to be paid
31 for providing assistance under this Part. The premiums and fees set by the Authority
32 shall be payable in the amounts, at the time, and in the manner that the Authority
33 requires. The premiums and fees may vary in amount among transactions and at
34 different stages during the terms of transactions.

35 **(b) Rate Standards.** – The rate standards in G.S. 58-40-20 apply to premiums set
36 by the Authority under this section. The Authority may also use the forms and rates of
37 rating or advisory organizations licensed under G.S. 58-40-50 or G.S. 58-40-55. The
38 Authority may vary from these rates in order to broaden participation by small
39 businesses that are unable to obtain adequate financing and bonding assistance in
40 connection with contracts. The premiums set and forms developed by the Authority
41 under this section must be approved by the Commissioner of Insurance before they may
42 be used.

43 **(c) Forms.** – The Authority shall develop forms to be used for financing and
44 bonding assistance.

1 "§ 143B-472.87. False statements; penalty.

2 (a) Documents. – It is unlawful to knowingly make or cause any false statement
3 or report to be made in any application or in any document submitted to the Authority.

4 (b) Statements. – It is unlawful to make or cause any false statement or report to
5 be made to the Authority for the purpose of influencing the action of the Authority on
6 an application for assistance or affecting assistance, whether or not assistance has been
7 previously extended.

8 (c) Penalty. – A violation of this section is a Class 2 misdemeanor."

9 SECTION 2.(a) This act becomes effective January 1, 2003, and applies to
10 offenses committed or causes of action arising on or after that date.

11 SECTION 2.(b) This act expires June 30, 2006. The expiration of this act
12 does not affect prosecutions for offenses committed before that date, and the statutes
13 that would be applicable but for this act remain applicable to those prosecutions. The
14 expiration of this act does not affect any guarantees or bonds executed prior to the
15 expiration.

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001**

S

1

SENATE JOINT RESOLUTION 1477

Sponsors: Senator Hagan.

Referred to: Rules and Operations of the Senate.

September 30, 2002

1 A JOINT RESOLUTION TO AUTHORIZE THE LEGISLATIVE RESEARCH
2 COMMISSION TO STUDY THE ISSUE OF LIMITING THE ACCESSIBILITY
3 BY MINORS OF PORNOGRAPHIC WEB SITES AND SHIELDING THEM
4 FROM MATERIALS THAT ARE HARMFUL TO MINORS, INCLUDING THE
5 FEASIBILITY OF ESTABLISHING A .XXX INTERNET DOMAIN.

6 Whereas, a recent study requested by Congress and conducted by The
7 National Academies acknowledged that protecting children from Internet pornography
8 is a special challenge because while the Internet offers enormous educational and social
9 benefits to children, it also raises concerns regarding the exposure of children to
10 inappropriate sexually explicit materials; and

11 Whereas, The National Academies report further states that "in traditional
12 areas such as books, films, and standard retail outlets, society has limited the access of
13 children to certain kinds of sexually explicit material without restricting the
14 constitutional rights of adults. The Internet poses a more serious problem because of
15 difficulty in distinguishing between adults and children in an online environment"; and

16 Whereas, the report stresses that children can sometimes see, and even
17 sometimes seek out, images that may not be appropriate for them. In comparison to
18 other media, the Internet has features that make responsible supervision over the
19 children who use it more difficult; and

20 Whereas, the General Assembly recognizes that this is a complex issue with
21 no single solution. The General Assembly further recognizes that there is a need to
22 develop a workable public policy that helps protect children from materials on the
23 World Wide Web that are harmful to them, but within parameters that continue to afford
24 Internet access to adults without unlawful restrictions; Now, therefore,
25 Be it resolved by the Senate, the House of Representatives concurring:

26 **SECTION 1.** The Legislative Research Commission may study the issue of
27 limiting the accessibility by minors of pornographic web sites and shielding them from
28 materials that are harmful to minors. In its study the Legislative Research Commission
29 may consider the following:

- (1) The feasibility of establishing an .XXX domain exclusively for the posting and dissemination of pornographic materials.
- (2) The various technology protection measures and information management schemes that are available in the current computer market.
- (3) The success and failure of current laws with regard to the protection of minors from harmful materials, the difficulties in enforcing those laws, and any revisions needed to those laws or additional resources needed to make those laws and their enforcement more effective.
- (4) The development of incentives for Internet service and content providers to behave in a more responsible manner, such as taking greater care to differentiate between adults and minors before granting access to sexually explicit content.
- (5) The development of public policies that would encourage self-regulatory efforts by businesses.
- (6) The possibility of creating economic incentives and disincentives to encourage responsible business behavior.
- (7) The development of educational strategies and tools that can be used to teach and enable young people to develop responsible decision-making skills and to use the Internet appropriately.
- (8) Which issues and remedies that are identified are more appropriately addressed at the State level and which ones are more appropriately addressed at the federal level.
- (9) Any other legislative, funding, or public policy issues relevant to protecting minors from harmful materials and still providing access to the many positive entertaining and educational opportunities that are available through Internet access.

SECTION 2. The Legislative Research Commission shall make a final report to the 2003 General Assembly upon its convening. The reports may include proposed legislation to carry out the recommendations of the study.

SECTION 3. This resolution is effective upon ratification.

MINUTES
HOUSE COMMITTEE ON PENSIONS AND RETIREMENT
October 1, 2002

The House Committee on PENSIONS AND RETIREMENT met on Tuesday, October 1, 2002 at noon in Room 415 in the Legislative Office Building. Members present were Representative Cox, Co-Chair; Vice Chairman McCombs; Representatives Barbee, Gene Wilson, Hensley, Rogers. The Visitor Registration sheet is attached. Other attachments are listed and have been made a part of the minutes.

HOUSE BILL 1219, GASTONIA POLICEMEN'S RETIREMENT was before the committee. Chairman Cox called the meeting to order and asked that Vice Chairman McCombs make a motion. Vice Chairman McCombs made a motion that the Committee accept the proposed committee substitute and open it for discussion. The motion carried without objection.

Senator Hoyle was called to speak on the Proposed Committee Substitute. He explained that many changes had been made to the bill and that the changes were acceptable to all the parties involved.


Mr. Moore was called to explain the changes from the original bill.

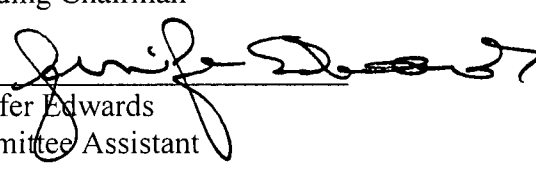
Chairman Cox asked that someone from the Department of Revenue speak on the bill. Chairman Cox asked that a retiree from the department, a current staff member and an elected official stand to state their agreement to the changes. Each did state their agreement.

Representative Hensley was called to ask a question. He stated that he noted the bill took out the supplement from the bill. He moved that proposed committee substitute be given **a favorable report, unfavorable to the original bill**. Representative Rogers was called to ask a question regarding how much would be left in the fund. Senator Hoyle stated that there was approximately \$1.2 million left in the fund, with \$680,000 owed in refunds. The plan could continue as it is for three to four years, after that it would be an issue for the court. The above-mentioned motion carried.

There being no further business, Representative Cox adjourned the meeting.

Respectfully submitted,



Representative A. Leslie Cox, Jr.
Presiding Chairman

Jennifer Edwards
Committee Assistant

Attachments

Senate Bill 1219

HOUSE PENSIONS AND RETIREMENT COMMITTEE

AGENDA

**Tuesday, October 1, 2002
Room 415 Legislative Office Building
11:00 am**

REPRESENTATIVE A. LESLIE COX, Jr. CHAIRING

I. CALL TO ORDER

II. WELCOME

III. INTRODUCTIONS

IV. BILLS TO BE CONSIDERED:

SB 1219 GASTONIA POLICEMEN'S RETIREMENT
Sponsored by Senator David Hoyle

V. COMMENTS

VI. ADJOURN

House
Jan. to CS

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

D

SENATE BILL 1219

Pensions and Retirement and Aging Committee Substitute Adopted 7/24/02
PROPOSED HOUSE COMMITTEE SUBSTITUTE S1219-CSST-117 [v.2]

9/26/2002 4:15:23 PM

Short Title: Gastonia Policemen's Retirement.

(Local)

Sponsors:

Referred to:

June 6, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO MAKE CHANGES TO THE GASTONIA POLICEMEN'S
3 SUPPLEMENTARY PENSION FUND.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. Section 8.2 of Article VIII of the Charter of the City of
6 Gastonia, being Chapter 557 of the 1991 Session Laws, as amended by S.L. 1997-161,
7 reads as rewritten:

8 "Sec. 8.2. **Gastonia Policemen's Supplemental Retirement Fund.** The Gastonia
9 Policemen's Supplemental Retirement Fund shall continue as authorized by Chapter
10 946, Session Laws of 1955, as amended by Chapter 112, Session Laws of 1957; Chapter
11 301, Session Laws of 1959; Chapter 198, Session Laws of 1965; Chapter 979, Session
12 Laws of 1965; and Chapter 809, Session Laws of 1983. ~~The Gastonia Policemen's~~
13 ~~Supplemental Retirement Fund is not subject to Article 3 of Chapter 159 of the General~~
14 ~~Statutes, 1983, subject to the following limitations:~~

15 (1) No person who becomes a member of the Gastonia Police Department
16 on or after October 1, 2002, shall be eligible for membership in or
17 benefits from the Supplemental Retirement Fund;

18 (2) The City of Gastonia shall stop deducting two percent (2%) of the
19 gross salary of the eligible employees;

20 (3) The Fund shall refund contributions made by the employees in full."

21 SECTION 2. This act becomes effective October 1, 2002.

Senators

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2001

S

2

SENATE BILL 1219
Pensions and Retirement and Aging Committee Substitute Adopted 7/24/02

Short Title: Gastonia Policemen's Retirement.

(Local)

Sponsors:

Referred to:

June 6, 2002

1 A BILL TO BE ENTITLED
2 AN ACT TO PROVIDE FOR THE DISSOLUTION OF THE GASTONIA
3 POLICEMEN'S SUPPLEMENTARY PENSION FUND.

4 The General Assembly of North Carolina enacts:

5 SECTION 1. Section 8.2 of Article VIII of the Charter of the City of
6 Gastonia, being Chapter 557 of the 1991 Session Laws, as amended by S.L. 1997-161,
7 reads as rewritten:

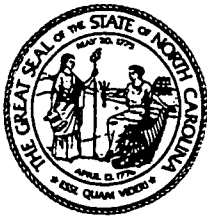
8 "Sec. 8.2. **Gastonia Policemen's Supplemental Retirement Fund.** The Gastonia
9 Policemen's Supplemental Retirement Fund shall continue Fund, as authorized by
10 Chapter 946, Session Laws of 1955, as amended by Chapter 112, Session Laws of 1957;
11 Chapter 301, Session Laws of 1959; Chapter 198, Session Laws of 1965; Chapter 979,
12 Session Laws of 1965; and Chapter 809, Session Laws of 1983. ~~The Gastonia~~
13 ~~Policemen's Supplemental Retirement Fund is not subject to Article 3 of Chapter 159 of~~
14 ~~the General Statutes. 1983, is repealed and the Board of Trustees shall dissolve the Fund~~
15 in the following manner;

- 16 (1) The two percent (2%) payroll contribution being made by eligible
17 employees will be stopped;
18 (2) The Fund shall refund contributions made by employees in full;
19 (3) The Fund shall pay earnings on the refund of employee contributions
20 at the rate of four percent (4%) per annum to employees who have not
21 been refunded their employee contributions on July 1, 2002; and
22 (4) The Fund shall distribute any remaining assets to employees who are
23 vested in the Fund as of July 1, 2002, in amounts as determined by an
24 actuary chosen by the Board. The actuary shall base the calculation of
25 these amounts payable to vested employees and employees receiving
26 benefits based upon actuarial assumptions established by the Board at
27 the recommendation of the actuary. For purposes of this section, any
28 employee is vested who has at least 15 years of service credited under

1 the Fund or 10 years or more service credited under the Fund if
2 disabled.

3 No person shall be permitted to become part of this Fund on or after July 1, 2002."

4 **SECTION 2.** This act becomes effective July 1, 2002.



SENATE BILL 1219: Gastonia Policemen's Retirement

BILL ANALYSIS

Committee: House Pensions and Retirement
Date: August 14, 2002
Version: Second Edition

Introduced by: Sen. Hoyle
Summary by: Karen Cochrane Brown
Committee Counsel

SUMMARY: *Senate Bill 1219 provides for the dissolution of the Gastonia Policemen's Supplementary Pension Fund by refunding employee contributions with 4% interest to all active employees and by distributing the remaining assets to all vested employees and beneficiaries as recommended by the Fund's actuary.*

CURRENT LAW:

The Gastonia Policemen's Supplementary Pension Fund was established by Chapter 946 of the Laws of 1955. The Act provided that any full-time paid member of the Police Department who retired with at least 20 years of service and was at least 55 years of age would receive a monthly benefit for the remainder of the member's life in an amount equal to 2% for each five years of service up to a maximum of 14% of his average monthly salary for the three highest years of service with the City. The Act created a Board of Trustees to administer the Fund to be composed of the Chief of Police, the Assistant Chief of Police, and the Accountant (Finance Officer) of the City. Funding for the benefits would come from a portion of the Municipal Court costs in criminal cases, not to exceed one dollar per case. The original Act contained a provision authorizing the City Council of Gastonia to abolish the Fund at any time and transfer any funds held by the Pension Fund to the general fund of the City. However, this provision was repealed in 1957.

In 1959, the Board of Trustees was authorized to establish a 2% employee contribution to help fund the benefits after an affirmative vote of the members. In addition, the phrase "so long as funds are available" was added to the provision defining the benefit to which eligible members would be entitled.

In 1965, the amount of Municipal Court costs dedicated to the Fund was increased from one dollar to three dollars per case. Later in 1965, the law governing the Fund was amended to redirect the three-dollar court costs from the Fund to the State Law Enforcement Officers' Benefit and Retirement Fund. In return, the City was authorized to make contributions to the Fund from the General Fund, as it deemed appropriate. In addition, the City was authorized to deduct the 2% employee contribution from the gross salary of each member.

In 1983, the law was amended to repeal the provision redirecting the court costs to the State Law Enforcement Officers' Retirement Fund.

BILL ANALYSIS:

This bill proposes to dissolve the Gastonia Policemen's Supplemental Retirement Fund in the following manner:

- No new members effective July 1, 2002, and all employee contributions will be stopped.
- The Fund will refund all employee contributions and pay interest at the rate of 4% per annum.

SENATE BILL 1219

Page 2

- The Fund will distribute any remaining assets to vested employees and beneficiaries in amounts as determined by the Fund's actuary.

For purposes of this act, any employee is vested who has at least 15 years of service, or 10 years or more, if the employee is disabled.

It appears that in dissolving the Fund in this manner the City of Gastonia proposes to pay vested members of the Policemen's Supplemental Pension Fund amounts less than the benefit that they had been promised throughout their career with the Police Department. Inasmuch as the Fund has been in existence since 1955, it is likely that all of the current and retired members were induced to continue employment with the City, at least in part, by the promise of the supplemental pension benefit. In fact, the Gastonia Police Department Employment website currently contains a reference to the supplemental pension fund as one of the retirement benefits offered to employees.

In *Bailey v State of North Carolina*, the Supreme Court established that the relationship between a public Retirement System and its employees who have vested in the system is contractual in nature, and that the benefits of the contract cannot be diminished or impaired without violating the Contract Clause of the federal constitution. By electing to discontinue funding of the Gastonia Policemen's Supplemental Pension Fund, and dissolving the Fund as proposed in this bill, it appears that the City of Gastonia may impair the contractual rights of all of the vested and retired members of the Fund. If challenged, the City could be found to have violated the constitutional rights of its vested members and required by the court to honor its contractual obligation.

The act would become effective July 1, 2002.



**North Carolina General Assembly
Legislative Services Office**

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Raleigh, NC 27603-5925
(919) 733-2578

July 23, 2002

MEMORANDUM

TO: Senator David Hoyle

FROM: Stanley Moore *SM*
Fiscal Research Division

SUBJECT: Actuarial Note Senate Bill 1219

Re: Repeal Gastonia Policemen's Supplemental Retirement Fund

In accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives, attached is a certified copy of an original actuarial note on the above subject as prepared by the General Assembly's Consulting Actuary. A certified copy of an original actuarial note on the same subject from the Plan Administrator's Consulting Actuary is also attached for your review.

cc: Senate Principal Clerk

Attachment(s):

- (1) Legislative Actuarial Note
- (2) Actuarial Note, Aon Consultants
- (3) Actuarial Note. Hartman & Associates

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE ACTUARIAL NOTE
RETIREMENT**

BILL NUMBER: Committee Substitute for Senate Bill 1219

SHORT TITLE: Gastonia Policemen's Retirement

SYSTEM OR PROGRAM AFFECTED: Gastonia Policemen's Supplemental Retirement Fund

FUNDS AFFECTED: City of Gastonia

BILL SUMMARY: Under the present law, all policemen of the City of Gastonia are members of the System. Each employee pays 2% of salary to fund and investment earnings on these contributions are used to pay benefits. The retirement benefit is 2% of average monthly salary for each 5 years of service or portion thereof, not to exceed 14% of salary, and is paid for life.

The bill will dissolve the Gastonia Policemen's Supplemental Retirement Fund and allow all assets of the System to be paid as follows: (1) all employees will receive a refund of their contributions in full, (2) all employees will receive 4% interest per annum on their contributions, (3) the balance of the assets are to be distributed to all those vested employees and retirees in amounts to be determined by an actuary using the assumptions adopted by the board.

EFFECTIVE DATE: July 1, 2002

SOURCES OF DATA:

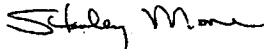
System Actuary - Aon Consulting

General Assembly Actuary - Hartman & Associates, LLC

TECHNICAL CONSIDERATIONS: In *Bailey v. State of North Carolina*, the Supreme Court established that the relationship between a public Retirement System and its employees who have vested in the system is contractual in nature, and that the benefits of the contract cannot be diminished or impaired without violating the Contract Clause of the federal constitution. By electing to discontinue funding of the Gastonia Policemen's Supplementary Pension Fund in 1983, and dissolving the Fund as proposed in this bill, it appears the City of Gastonia may impair the contractual rights of all of the vested and retired members of the Fund. If challenged, the City could be found to have violated the constitutional rights of its vested members and required by the court to honor its contractual obligation.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Stanley Moore



APPROVED BY: James D. Johnson



DATE: July 23, 2002



Aon Consulting

*Employee Benefits
Consulting Group*

July 19, 2002

Mr. Stanley Moore
Fiscal Research Division
The General Assembly of North Carolina
300 North Salisbury St.
LOB- Room 619
Raleigh, NC 27603

Re: Actuarial Notes for Proposed Section 8.2 of Article VIII of the Charter of the City of Gastonia (Gastonia Policemen's Supplementary Pension Fund Act)

Dear Mr. Moore:

The purpose of this letter is to discuss the actuarial implications of the proposed statutory change noted above.

This proposed regulation consist of four points as discussed below:

- 1) The 2% payroll contribution being made by eligible employees will be stopped – this will avoid additional future liability to the Policemen's Supplementary Pension Fund resulting from such future employee contributions.
- 2) The Fund will refund contributions made by employees in full – the Fund currently provides a refund of employee contributions at cessation of employment; therefore, this provision merely serves to reimburse all current participants for any money they have contributed to the plan. Since retirees have already received a refund of such contributions, this provision (and point 3 below) will only apply to those vested employees in the Fund that are not currently in pay status. While the exact amount cannot be computed at this time, it is anticipated that such employee contribution refunds will constitute approximately 50% of current plan assets.
- 3) The Fund will pay earnings on the refund of employee contributions at the rate of 4% per annum for employees who have not been refunded their employee contributions on the effective date of this Act – this point essentially treats the refund of employee contributions for vested participants in the same manner as under the State plan. Even though the current

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*Employee Benefits
Consulting Group*

Mr. Stanley Moore
July 19, 2002
Page 2

statute does not require interest to be paid on employee contributions, this point is considered to be an equitable arrangement since such vested employees would only receive a portion of the value of their ultimate retirement benefits under this proposed legislation (see step 4 below). While an exact determination cannot be made at this date, it is the opinion of the actuary that this provision will constitute a payment of approximately 10% to 20% of plan assets.

- 4) The Fund will distribute any remaining assets to employees who are vested in the Fund as of the date of the ratification of this Act and to retirees who are receiving benefits as of the date of the ratification of this Act in amounts as determined by an actuary chosen by the board. The actuary shall base the calculation of such amounts payable to vested employees and employees receiving benefits based on such actuarial assumptions as shall be established by the Board at the recommendation of the actuary. For purposes of this Act, an employee is vested who has at least 15 years of service credited under the fund or 10 or more years of service credited under the fund if disabled (and not in pay status as a retired employee) –This point provides an actuarial basis for distributing remaining plan assets (after the refund of employee contributions with interest) to all retired and vested participants in an equitable manner. The procedure for distributing remaining assets is summarized below:
 - (a) The benefit earned to date for all vested policemen will be computed using the plan benefit formula as set forth in the statute based on their years of service and average compensation as of the date of the ratification of this Act; the benefit earned to date for policemen in pay status is the benefit they are currently receiving.
 - (b) The actuarial present value of such benefit payable for each retired and vested policeman will be determined by the plan actuary (using actuarial assumptions as established by the Board at the recommendation of the actuary).
 - (c) The total actuarial present value of all benefits shall be determined by summing the individual present values for each of the retired and vested policemen in the Fund as of the date of the ratification of this Act.

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*Employee Benefits
Consulting Group*

Mr. Stanley Moore
July 19, 2002
Page 3

- (d) Each retired and vested policemen's "share" of the remaining assets will be determined on a prorata basis comparing the individual's actuarial present value to the total actuarial present value of all eligible participants.

Example:

The actuarial present value of future benefits for Policeman A is \$25,000.
The actuarial present value of all benefits is \$2,500,000
Therefore, Policeman A would get 1% (\$25,000 divided by \$2.5 million) of the remaining assets.
So, if the remaining assets were \$500,000, Policeman A would receive a distribution of \$5,000 under this section of the regulations.

If there are any questions on any points made in this letter, I can be reached at 919-786-6263.

Respectfully Submitted,



Russell M. Fuller, F.S.A., M.A.A.A., E.A.

Cc: Chief Rodney Parham
Mr. Steve Gambill
Mr. Richard Rogers

RMF/liw

HARTMAN & ASSOCIATES, LLC

ACTUARIAL CONSULTING

MARK V. HARTMAN, FSA, MAAA, MCA, EA

Phone: (336) 731-4038

Fax: (336) 731-2583

668 Link Road
Lexington, NC 27295

July 11, 2002

Mr. Stanley Moore
Fiscal Research Division
North Carolina General Assembly
300 N. Salisbury Street
Raleigh, NC 27603-5925

Re: Proposed Committee Substitute to Senate Bill 1219: An Act to
Provide for the Dissolution of the Gastonia Policemen's
Supplementary Pension Fund

Dear Mr. Moore:

This proposed committee substitute amends Section 8.2 of Article VIII of the Charter of the City of Gastonia to provide for the dissolution of the Gastonia Policemen's Supplementary Pension Fund. This Fund covers all full time members of the Gastonia Police Department or Board of Trustees. The Fund provides a retirement benefit of 2% of average monthly salary for each five years of service at retirement under the Local Governmental Employee's Retirement System and completion of 15 years of service with the City. The employees contribute 2% of their pay to the Fund.

This proposal would dissolve the Fund by ceasing all employee payroll contributions, refunding accumulated employee contributions, and distributing the remaining assets to current retirees and vested employees. An employee is vested after 15 years of credited service under the Fund or 10 years of service if disabled. This proposal is effective July 1, 2002.

Based on the actuarial study performed by Aon Consulting as of May 1, 2001, this plan is significantly underfunded. That study computed the value of benefits earned to date for retirees and active employees as \$3.9 million compared to assets of \$1.2 million. The study also indicated that the assets are not sufficient to purchase annuities for current members receiving benefits. The asset value would be sufficient to provide the refund of accumulated employee contributions under this proposal, but both currently retired and active plan members would receive

Mr. Stanley Moore
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only a fraction of their total accrued benefits. This result appears consistent with plan provisions which reduce or eliminate benefits when assets are insufficient. However, this may produce legal ramifications due to the loss of benefits. These are beyond the scope of this note.

If you have any questions, let me know.

Sincerely,

Mark Hartman

Mark V. Hartman, FSA, MAAA, MCA, EA
Consulting Actuary

MVH/mt

VISITOR REGISTRATION SHEET

HOUSE PENSIONS AND RETIREMENT

October 1, 2002

Name of Committee

Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME

FIRM OR AGENCY AND ADDRESS

J L Dobbins	Gastonia P.D.
R. Trent Conard	Gastonia P.D. 200 E. Long Ave. Gastonia NC
Tim Oidams	Gastonia Police Dept.
Bill Bradley	City of Gastonia
Richard Rogers	Rogers Law Firm
DANNY COCHRAN	GASTONIA, PD (RET.)
Joanne Scharer	Retirement System-Treasurer's Office
DENNIS CROSBY	GASTONIA P.D. (RET.)

2002 COMMITTEE REPORT
HOUSE OF REPRESENTATIVES

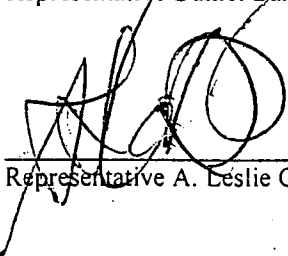
The following report(s) from standing committee is/are presented:
By Representatives Barefoot and Cox (Chairs) for the Committee on
PENSIONS AND RETIREMENT

The following bills are reported with an indefinite postponement report:

BILL NO.	SHORT TITLE	SPONSORS
H243	TEACHER RETIREMENT ELIGIBILITY	Gene Rogers
H547	POSTRETIREMENT EARNINGS	Gene Arnold
H1140	NC NATIONAL GUARD PENSIONS	Wayne Sexton
H1327	RETIRED TEACHERS RETURN TO TEACHING	Alice Underhill
		Marian McLawhorn
H1419	FIREFIGHTERS' & RESCUE WORKERS RETIREMENT	Thomas Wright
H1158 H1158	FIRE AND RESCUE AMENDMENT	Phil Baddour
H1594	LEGISLATIVE RETIREMENT INCREASE	John Hurley
H1605	TREAT RETIREMENT CONTRIBUTION RATES EQUIVALENTLY	Verla Insko
		Marvin Lucas
		Jennifer Weiss
H1617	REPEAL DISABILITY RETIREMENT EXCLUSION	Leslie Cox
H1618	FIRE AND RESCUE DISABILITY AMENDMENT	Leslie Cox
H1722	PURCHASE OF WITHDRAWN LOCAL SERVICE	Nelson Cole
H1727	PENSION PROTECTION ACT	Daniel Blue

Submitted by the Chairs of the House Committee on Pensions and Retirement on October 2, 2002

Representative Daniel Barefoot


Representative A. Leslie Cox, Jr.

Box Contents

2001-02 Standing Committee Minutes (Item 25894)

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1. 2001-02 House Public Health
2. 2001 House Public Utilities
3. 2002 House Public Utilities
4. 2001 House Congressional Redistricting
5. 2001-02 House Legislative Redistricting
6. 2001 Joint Redistricting Committees
7. 2002 House Rules