

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE ACTUARIAL NOTE**

**BILL NUMBER:** Committee Substitute for Senate Bill 538

**SHORT TITLE:** Professional Firefighters' Retirement

**SPONSOR(S):** Senator Ballance

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

**FUNDS AFFECTED:** Local Government Funds

**BILL SUMMARY:** Defines a "Professional Firefighter" in the Local Governmental Employees' Retirement System and provides an accrual rate of 2.5% for each year of service as a firemen after July 1, 1987 and provides for unreduced retirement after 25 years of service as a professional firefighter regardless of age or at age 55 with five years of service as a professional firefighter.

**EFFECTIVE DATE:** July 1, 1997

**ESTIMATED IMPACT ON LOCAL GOVERNMENTS:**

**Local Governmental Employee's Retirement System**

Retirement System Actuary: Buck Consultants estimates the normal cost will increase from 4.63% of payroll to 11.26% for a net increase of 6.63% of the payroll of firefighters. Buck Consultants estimates that the annual cost to pay the unfunded accrued liability will be \$3,869,000 which is expressed as a percent of the total payroll of all employees within each employer.

	1997-98	1998-99	1999-2000	2000-01	2001-02
Normal Cost Increase	\$6.8m	\$7.2m	\$7.7m	\$8.3m	\$8.8m
Accrued Liability	<u>\$3.8m</u>	<u>\$4.2m</u>	<u>\$4.4m</u>	<u>\$4.7m</u>	<u>\$5.0m</u>
Total Local Funds	\$10.6m	\$11.4m	\$12.1m	\$13.0m	\$13.8m

General Assembly Actuary: Dilts, Umstead & Dunn estimates the normal cost will increase from 4.63% of payroll to 10.98% for a net increase of 6.35% of the payroll of firefighters. They also estimates that the annual cost to pay the unfunded accrued liability will be \$6,857,000 which is expressed as 6.71% of the payroll firefighters.

	1997-98	1998-99	1999-2000	2000-01	2001-02
Normal Cost Increase	\$6.5m	\$6.9m	\$7.4m	\$7.9m	\$8.4m
Accrued Liability	<u>\$6.8m</u>	<u>\$7.3m</u>	<u>\$7.8m</u>	<u>\$8.4m</u>	<u>\$8.9m</u>
Total Local Funds	\$13.3m	\$14.2m	\$15.2m	\$16.3m	\$17.3m

**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, 1995 actuarial valuation of the fund. The data included 101,341 active members with an annual payroll of \$2.429 billion and 22,732 retired members in receipt of annual pensions totaling \$201.7 million. Significant actuarial assumptions used include (a) an investment return rate of 7.5%, (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. For the purposes of this bill, some of the cost is based as a percentage of payroll of the firemen's estimated payroll since it deals with about 3,319 firemen with an estimated payroll of \$102,183,524 reporting from several different local employers.

**SOURCES OF DATA:** : Retirement System Actuary - Buck Consultant, Inc.  
General Assembly Actuary - Dilts, Umstead & Dunn

**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. The above cost estimates are based on the salary base as of July 1, 1997 projected at the average annual increase in compensation base for each system over the last five years.

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**PREPARED BY:** Stanley Moore

**APPROVED BY:** Tom Covington **TomC**

**DATE:** April 22, 1997



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