

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Actuarial Note

RETIREMENT

BILL NUMBER: Senate Bill 908 (First Edition)
SHORT TITLE: Fire and Rescue Separation Allowances.
SPONSOR(S): Senator Clodfelter

FUNDS AFFECTED: Funds of cities, towns and counties that have retired firefighters or rescue squad workers

SYSTEM OR PROGRAM AFFECTED: Creates Special Separation Allowance for retired firefighters and rescue squad workers in the Local Governmental Employees' Retirement System or a locally sponsored retirement plan.

EFFECTIVE DATE: July 1, 2010

BILL SUMMARY: Creates a new Article 12G to GS Chapter 143 to provide for separation allowances for career firefighters and career rescue squad workers who retire from the Local Governmental Employees' Retirement System or a locally sponsored retirement plan. Adds a new GS 143-166.90 to define beneficiary, career firefighter, career rescue squad worker, and employer. Adds new GS 143-166.91 to authorize eligible career firefighters and career rescue squad workers and certain former career firefighters and career rescue squad workers who were permanently disabled in the line of duty to receive an annual separation allowance equal to 0.575% of the annual equivalent of the base rate of compensation most recently applicable to the individual for each year of creditable service. The allowance must be paid in equal installments on the payroll frequency used by the employer. In order to qualify, career firefighters and career rescue squad workers must meet one of the following conditions:

- (1) age 55 with 5 years of service or any age with 30 years of service;
- (2) not become eligible for unreduced Social Security Benefits; and
- (3) have completed at least five years of continuous service as a career firefighters and career rescue squad workers preceding retirement.

The benefit is to be paid until the earlier of the death of the officer, age 62 or the first day of re-employment by a local government employer in any capacity. Any benefits from the separation allowance payments do not affect the benefits to which an individual may be entitled from state, federal, or private retirement systems. The benefits are not subject to any increases in salary or retirement allowances that may be granted to local employees by any employer. The governing body for each local unit is responsible for making eligibility determinations and for making the separation allowance payments.

ESTIMATED IMPACT ON LOCAL GOVERNMENTS:

Retirement System Actuary: Buck Consultants estimates the annual cost to be as follows:

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Separation Allow.	Zero	\$2.0M	\$3.0M	\$4.4M	\$5.7M

Buck Consultants did not include disability retirees since data is not readily available.

General Assembly Actuary: Hartman & Associates estimates the annual cost to local units in the Governmental Employees' Retirement System to be as follows:

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Local System	Zero	\$0.6M	\$1.7M	\$2.9M	\$4.3M
City of Charlotte	Zero	\$.04M	\$.2M	\$.3M	\$.5M

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, 2007 actuarial valuation of the fund. The data included 127,959 active members with an annual payroll of \$4.75 billion, 42,408 retired members in receipt of annual pensions totaling \$689.4 million, and actuarial value of assets equal to \$16.8 billion. Significant actuarial assumptions used include (a) an investment return rate of 7.25%, (b) salary increase rate of 6.25%, (c) the 1994 Group Annuity Mortality Tables, (tables are set forward three years for males, set forward two years for females and set forward two years for the beneficiaries of deceased members and special mortality tables are used for period after disability retirement), and (d) rates of separation from active service based on System experience. The actuarial cost method used was the projected benefit method with aggregate level normal cost and frozen accrued liability. Gains and losses are reflected in the normal rate. Detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from Stanley Moore.

SOURCES OF DATA: The bill will create the Special Separation Allowance. This will be controlled and paid for by local units of government and there will not be an actuary that has the responsibility to oversee the Special Separation Allowance, since hundreds of local governments are responsible for determining eligibility and for the payment of benefits. So, we used the Retirement System Actuary, Buck Consultants, and the General Assembly Actuary, Hartman & Associates to estimate the cost and results of this bill since they have data on active members and retirees of the System.

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910. The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

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APPROVED BY:

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DATE: May 19, 2009



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