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Retirement News
Update for Active Members

CHANGES TO RETIREMENT BENEFITS FOR LAW ENFORCEMENT OFFICERS

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If you are a Law Enforcement Officer (LEO) who is a member of the Local Governmental Employees' Retirement System (LGERS) or the Teachers' and State Employees' Retirement System (TSERS), your retirement benefits may be affected by the new "25-Year LEO Retirement Option" law (Session Law 2018-22).

This new law creates eligibility for some LEOs to retire at earlier dates, but the officer's pension may be reduced substantially and will not include any Special Separation Allowance (SSA) monthly payments on account of the earlier retirement.

Each LEO should consider his or her circumstances carefully when deciding on a retirement date.

LEO retirement rules that are still the same

Before describing the provisions of the new law, it may be useful to review some details about LEO retirement benefits that are not affected by the new law.

- The full (or "unreduced") pension, payable for the LEO's lifetime, is 1.85 percent (for LGERS) or 1.82 percent (for TSERS) times creditable service, times four-year average final compensation.
- LEOs can retire with a full pension at age 55 after five years of service as a LEO, or at any age with 30 years of creditable service under TSERS or LGERS.
- LEOs retiring with an unreduced pension, before age 62, may also receive a benefit called the Special Separation Allowance (SSA). In order for the SSA to be payable, at least 50 percent of the LEO's creditable service must be service as a LEO. The SSA is equal to 0.85 percent times creditable service, times the most recent base pay rate. It is payable during the LEO's retirement until age 62.
- LEOs can also retire at age 50, after 15 years of service as a LEO. For those who retire before age 55 under this provision, the pension is reduced to account for earlier retirement. For example, a LEO retiring at age 50 with 15 years of creditable service can receive 80 percent of the full pension. The SSA is not payable in this situation.

- The new law does not change the terms of any retiree medical benefits that may be available under the State Health Plan or that may be funded by a local government employer, except that some LEOs may choose to retire at different dates as a result of the new law. Supplemental Retirement Plan benefits (such as the NC 401(k), 457 or 403(b)) are also not affected.

LEO retirement rules affected by the new law

The new law changes the retirement provisions for LEOs in two primary ways.

Item 1: "25-Year Retirement" at Any Age

Effective July 1, 2019, LEOs may retire with a reduced benefit at any age, after 25 years of creditable service (at least 15 years as a LEO). Note that before this change, LEOs in this group who are at least 50 years old already could retire with a reduced pension, and LEOs with at least 30 years of creditable service could retire with a full pension at any age. What is new under this change is that LEOs younger than 50, who have 25 years (but not 30 years) of creditable service, may retire with reduced pensions. Since the benefit is reduced for early retirement, the SSA is not payable. (See Item 2 in this description related to possible employer-funded buyouts.)

Here is an illustration of the percentage of the full pension that LEOs may receive under this rule, at each retirement age up to 50. In addition to these reductions to the pension amount, officers retiring under the 25-year provision do not receive the monthly SSA. (Again, see Item 2 for more information.)

Table 1: Percentage of Full Pension Payable Under "25 Year" LEO Retirement (Excludes SSA, Which Is Not Payable Under 25-Year Retirement)

Creditable Service:	29	28	27	26	25
Age					
50	95%	90%	85%	80%	80%
49	91%	86%	81%	76%	76%
48	87%	82%	77%	72%	72%
47	83%	78%	73%	68%	68%
46	79%	74%	69%	64%	64%
45	75%	70%	65%	60%	60%
44	71%	66%	61%	56%	56%
43	67%	62%	57%	52%	52%

To assist officers in understanding the potential effect of forgoing the monthly SSA, we have prepared the following tables that estimate the percentage reduction in the benefits payable before and after age 62, if the officer were to retire immediately as compared to working until the 30-year service mark. The tables are intended as simplified illustrations, and will not correspond to each officer's situation. For instance, they assume that the four-year average final compensation (used for the pension calculation) is equal to the final salary rate (used for the SSA calculation), and disregard adjustments due to sick leave conversions. The tables were generated based on hypothetical LGERS members, but they would not be materially different using TSERS members.

CONSIDER THIS:

A LEO retiring at age 48 with 27 years of creditable service could receive 77 percent of the full pension.

If the same LEO worked three more years, until age 51, he or she could retire with 30 years of service, receiving the full pension.

In addition, by working until age 51, this LEO could receive the monthly Special Separation Allowance, equal to 25.5 percent of the final salary rate (0.85 percent times 30 years of service), payable for 11 years until age 62.

Table 2: 25-Year LEO Retirement Pension, as an Approximate Percentage of Total 30-Year Retirement Pension + SSA That Would Have Been Payable Before Age 62

Creditable Service:	29	28	27	26	25
Extra Early Years of Pension, vs. 30-Year Retirement:	1	2	3	4	5
Percentage of **Pre-62** Monthly Pension + SSA vs. 30-Year Retirement					
Retirement age 50	63%	58%	52%	48%	46%
49	60%	55%	50%	45%	43%
48	58%	52%	47%	43%	41%
47	55%	50%	45%	40%	39%
46	52%	47%	43%	38%	37%
45	50%	45%	40%	36%	34%
44	47%	42%	38%	33%	32%
43	44%	40%	35%	31%	30%

Table 3: 25-Year LEO Retirement Pension, as an Approximate Percentage of Total 30-Year Retirement Pension That Would Have Been Payable After Age 62

Creditable Service:	29	28	27	26	25
Percentage of **Post-62** Monthly Pension + SSA vs. 30-Year Retirement					
Retirement age 50	92%	84%	77%	69%	67%
49	88%	80%	73%	66%	63%
48	84%	77%	69%	62%	60%
47	80%	73%	66%	59%	57%
46	76%	69%	62%	55%	53%
45	73%	65%	59%	52%	50%
44	69%	62%	55%	49%	47%
43	65%	58%	51%	45%	43%

CONSIDER THIS:

By retiring under the new 25-year provision, this LEO could receive $1,923 per month from age 48 for life.

If the LEO worked until age 51, the total monthly pension plus SSA could have been $4,050 per month ($2,775 + $1,275) from age 51 to 62, and $2,775 after age 62.

By retiring under the 25-year provision, the monthly amount would be about 47 percent of the monthly benefit that would have been payable if the LEO waited until the 30-year mark, and 69 percent of the monthly benefit that would have been payable after age 62.

In *Table 1*, we considered a LEO retiring at age 48 with 27 years of service. Let's assume that the officer is an LGERS member, with a four-year average final compensation of $60,000 per year, or $5,000 per month. The early retirement pension at age 48 under the new law is 1.85% x $5,000 x 27 x 77% (from Table 1), or $1,923 per month.

After working three more years (until age 51), assuming no further increases in pay, the LEO could have retired with a pension of 1.85% x $5,000 x 30, or $2,775 per month. In addition, upon age 51 retirement, this LEO could have received a monthly SSA of 0.85% x $5,000 x 30, or $1,275 per month, for 11 years until age 62.

Table 2 and *Table 3* assume that by taking the 25-year retirement, the officer would forgo the value of the SSA completely. “Item 2” of the new law, as described below, may cause this assumption to be inaccurate in cases where an employer is offering a lump sum separation buyout.

Item 2: Employers May Offer Separation Buyouts in Certain Situations

Effective immediately, state and local government employers have discretionary authority to offer lump sum separation buyouts to LEOs who have not yet become eligible for the SSA. This means that they may offer such buyouts to LEOs who have not reached 30 years of creditable retirement service (with at least 50 percent as a LEO), or have not reached age 55 with five years of creditable service, or do not have five continuous years as a LEO before their separation. The maximum buyout amount that could be offered is the total of the SSA payments that could have been made if the LEO had been eligible. For example, for a LEO who is age 52 with 15 years of creditable service, with a salary rate of $60,000 per year, the buyout could not exceed 0.85% x 15 years of creditable service x $60,000 x 10 years of potential SSA payments (age 52 to 62), or a maximum buyout offer of $76,500.

The new law does not require employers to offer separation buyouts. Any buyouts would not be paid by the Retirement System, but would be paid by the employer.

Additionally, effective July 1, 2019, the new law also allows employers to fund the “Transfer Benefit” for a member of TSERS or LGERS.

Before this change, members could add a Transfer Benefit to their TSERS or LGERS retirement by transferring funds from an outside retirement account (such as a NC 401(k) account). Any account funds transferred became a set, guaranteed monthly benefit under TSERS or LGERS.

Under the new law, employers may now contribute funds directly to TSERS or LGERS on the LEO’s behalf. As a result, it is possible that LEO separation buyouts offered under the new law might take the form of employers purchasing a Transfer Benefit under TSERS or LGERS on the LEO’s behalf.

Questions?

The provisions of the new “25-Year LEO Retirement Option” law are complex. We encourage all members to review all aspects of their individual situations and consult with their employers before deciding on a retirement date.

For general questions about eligibility and benefits, please read the LEO handbooks located on our website at www.myncretirement.com.