



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

JANET COWELL
TREASURER

STEVE TOOLE
RETIREMENT SYSTEMS DIRECTOR

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TO: Retirement Administration

FM: Sam Watts, James Rose, Emma Hanson, Betty Fuller, Bryan Allard, Linn Stephens, Taylor Warnock

RE: Summary of 2014 Legislation Affecting the Retirement Systems

State Budget:

The 2014 Appropriations Act (Senate Bill 744) funds the Annual Required Contributions for the Retirement Systems and has several sections which affect the Division:

- Sections 2.1 and 35.13 - Appropriates the Department's budget, state pension fund contributions, and Fire and Rescue Squad Workers' contribution for the 2014-2015 Fiscal Year:

	2014-2015
State Treasurer	\$9,686,236
State Retirement System Projected Employer Contributions for Fiscal Year 2015 (TSERS)	\$1,292,624,500
State Retirement System General Fund Contributions for Fiscal Year 2015 above 2014 Base Budget (TSERS)	\$45,000,000
Additional State Retirement System Contributions for Fiscal Year above 2013 Base Budget (TSERS)	\$81,000,000
Additional Judicial Retirement System Contributions for Fiscal Year above 2013 Base Budget (CJRS)	\$4,302,080
Firefighter's and Rescue Squad Workers' Pension Fund (FRSWPF)	\$13,900,000
National Guard Pension Fund	\$6,039,274
Additional Disability Income Plan of North Carolina Contributions for Fiscal Year above 2013 Base Budget (DIPNC)	(\$1,131,888)
Line of Duty Death Benefits	\$725,000

- Section 35.13(b) - State Employer Contribution Rates:

Employer Contribution Rates for Retirement, Health and Related Benefits

Rates effective July 1, 2014

S.L. 2014-100

	Total Rate	Breakdown of Rate Type					
		Retirement	Retiree Health Benefit	Disability Income Plan	Death Benefit	Supplemental Retirement	Qualified Excess Benefit
TSERS General	15.21%	9.14%	5.49%	0.41%	0.16%		0.01%
TSERS Law Enforcement	20.21%	9.14%	5.49%	0.41%	0.16%	5.00%	0.01%
UNC ORP	12.74%	6.84%	5.49%	0.41%			
Com. Coll. ORP	12.74%	6.84%	5.49%	0.41%			
CJRS	32.70%	27.21%	5.49%				
Legislative Retirement System	5.49%	0.00%	5.49%				

- Section 35.13(c) - Maximum annual employer contributions to the State Health Plan: Sets the maximum annual amount per employee or retiree payable to the State Health Plan for Teachers and State Employees for fiscal years 2013-2014 and 2014-2015. The maximum annual amount for the 2014-2015 fiscal year shall be reduced because the Treasurer has recommended that the plan forgo its scheduled premium increase for 2015.

	<u>2013-2014</u>	<u>Monthly</u>	<u>2014-2015</u>	<u>Monthly</u>
Medicare Eligible	\$4,107	\$342.25	\$4,179	\$348.25
Non-Medicare Eligible	\$5,285	\$440.42	\$5,378	\$448.16

- Salary Increases for Most State Employees
 - Section 35.10.(a): Effective July 1, 2014, salaries in effect on June 30, 2014 shall be increased by \$1,000 for permanent full-time State officials whose salaries are set in accordance with the N.C. Human Resources Act, as well as permanent full-time State officials and persons in positions exempt from the N.C. Human Resources Act. Permanent part-time State employees and both temporary and permanent hourly State employees' salaries shall be increased on a prorated and equitable basis subject to the availability of funds in the employing State agency, department, or institution and within regular State Budget Act procedures.
- Special Annual Leave Bonus
 - Section 35.10A.(a): All permanent full-time employees of the State or of a community college institution who are in service on September 1, 2014, and who are eligible to earn annual leave shall receive five days of special bonus annual leave.
 - Section 35.10A.(b): The additional special bonus annual leave provided in Section 35.10A.(a) shall not expire until used. Part-time permanent employees shall receive a pro rata amount of the five days of special bonus annual leave.
- Section 35.14 - Cost-of-Living Increases for Retirees: From and after July 1, 2014, the retirement allowance to or on account of beneficiaries whose retirement began from TSERS, CJRS, or LRS on or before July 1, 2013 shall be increased by one percent (1%) of the allowance payable on June 1, 2014. From and after July 1, 2014, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2013 but before June 30, 2014 shall be increased by a prorated amount of one percent (1%) of the allowance payable between July 1, 2013 and June 30, 2014. The Retirement System is communicating this to external audiences as follows: *The cost-of-living adjustment (COLA) increase approved by the General Assembly is one percent (1%) for members whose retirement began on or before July 1, 2013. Members with retirement effective dates between August 1, 2013 and June 1, 2014 received a prorated amount.*
- Section 35.15C - National Guard Pension Enhancement: Effective July 1, 2014, National Guard Pension Fund benefits shall be increased from \$95.00 per month for 20 years' creditable military service with an additional \$9.50 per month for each additional year of service to \$99.00 per month for 20 years' creditable military service with an additional \$9.90 per month for each additional year of service. The maximum monthly benefit shall be increased from \$190.00 to \$198.00.
- State Health Plan (SHP) Changes and Clarification for Re-Hired State Retirees
 - Section 35.16.(c): Effective January 1, 2015, this section allows for alternative health insurance coverage under the SHP for non-permanent full-time State employees. The coverage is offered on a contributory basis and is intended to meet the requirements of minimum essential coverage under the Patient Protection and Affordable Care Act.

- Section 35.16A.(a): This section clarifies that State retirees who are eligible for coverage in the SHP as active employees are not eligible for retiree coverage.
- Section 33.1 - Retirement System Compliance Positions: Two receipt-supported positions are created in the Retirement Systems Division of the Department of State Treasurer in order to staff a compliance unit within the Division. This unit shall be tasked with reducing the risk of fraud, waste, and abuse within the Retirement Systems Division.
- Section 25.1 - Private Audit of Pension Fund: In addition to all other audits and reports required by law, the State Treasurer shall prepare and issue for the 2014-2015 fiscal year, a set of financial statements regarding the investment programs for the Retirement Systems to be audited by a commercial independent third-party audit firm selected and engaged by the State Auditor based upon selection criteria developed by the State Auditor in consultation with the State Treasurer. The audit firm's report and the financial statements shall be provided to the State Controller and the General Assembly by no later than January 1, 2016.
- Section 35.15A - Funding for NC 403(b): Appropriates \$150,000 from the Qualified Excess Benefit Arrangement to fund the start-up costs to administer the statewide 403(b) plan created under S.L.2011-310. The Plan shall repay the QEBA when the balance in its administrative account exceeds \$250,000. The repayment shall be made with interest at a rate set by the Board of Trustees established under G.S. 135-6.
- Section 35.17(c) - Separate Insurance Benefits Plan: Requires that the Department of State Treasurer reimburse the General Fund for the retiree health benefit trust contributions for State law enforcement officers by paying five and forty-nine hundredths percent (5.49%) of the total compensation for fiscal year 2014-2015 for which the Department of Public Safety and Department of Justice have made retirement contributions for their sworn Law Enforcement Officers using monies from the Separate Insurance Benefits Plan Trust for the 2013-2015 biennium.

Non-Agency Legislation

- *Technical and Other Corrections (House Bill 1133)*: Section 55.3.(f) changes the eligibility requirements for retroactive membership service in the State System so that a member may qualify if they are reinstated with the approval of the Office of State Human Resources Director rather than by a decision of the State Human Resources Commission.

Agency Legislation:

- *Volunteer Fire and Rescue Finances (House Bill 1034)*
 - Section 3 - Supplemental Pensions: Effective October 1, 2014, this section allows payment of monthly benefits in the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) at age 55 with 20 years of service, regardless of whether the member has terminated paid employment as a firefighter or rescue squad worker.
- *Fiscal Integrity Act of 2014 (House Bill 1195)*:
 - Section 1 - Contribution-Based Benefit Cap: Establishes a contribution-based cap on pension benefits for members retiring from TSERS and LGERS. The benefit cap serves to control the practice of "pension spiking," whereby a member's compensation significantly increases during or immediately preceding the four-year period over which compensation is averaged in order to calculate the member's retirement benefit. The cap approximately corresponds with the

annuitized equivalent of the total accumulated balance of employee contributions multiplied by a factor selected by the Boards of Trustees. The Boards of Trustees shall select a factor such that no more than 0.75% of retirement benefits shall be affected by the benefit cap. The benefit cap shall not apply to members whose average final compensation is less than or equal to the minimum average final compensation threshold of \$100,000. This minimum compensation threshold shall be adjusted on January 1 of each year using the Consumer Price Index formula. The Retirement System shall regularly provide a report listing those employees most likely to be affected by the benefit cap to all employers.

- Contribution-Based Purchase Provision: If a member's retirement allowance is subject to an adjustment, the Retirement Systems Division (RSD) shall notify the member and the member's employer that the member's retirement allowance has been capped. In addition, RSD shall calculate the additional cost of the member's benefit in excess of the cap and shall provide the member with the option of paying this additional cost in order to receive the full, uncapped benefit under the special contribution-based purchase provision. For members first hired prior to January 1, 2015, the member's last pre-retirement employer shall be required to pay the additional amount, which shall be equivalent to the contributions necessary to fund the amount in excess of the benefit cap, as a lump sum. For members first hired on or after January 1, 2015, the employer may choose whether to pay this additional contribution. If the employer chooses not to pay the additional contribution, the member may choose either to pay the amount necessary to offset the cost of the excess benefit amount, or the member may accept a benefit reduced to the benefit cap. The member (or the member's employer) shall submit a lump-sum payment equal to the additional contribution required in order for RSD to restore the retirement allowance to its original, uncapped amount under the special contribution-based purchase provision by the later of the following dates:
 - Ninety days after receipt of notification by RSD, or
 - Ninety days after the effective date of the member's retirement.
- Employer Reporting Responsibility: For members whose retirement becomes effective on or after January 1, 2015 and whose retirement benefit has exceeded the contribution-based benefit cap, employers shall transmit to RSD the amount of the lump-sum payment required under the contribution-based purchase provision for retiring members who last earned service credit as an employee of that employer in the month immediately preceding the month in which the member's retirement becomes effective.
- The Retirement Systems' Division Responsibility: RSD shall report monthly to each employer a list of those members employed by the agency in the preceding month who are most likely to require an additional employer contribution should they elect to retire in the following 12 months, if applicable. A member shall be deemed to have been employed by the agency if RSD received an employer contribution from the agency on the member's behalf in the preceding month.
- Section 2 - Return of Contributions with Interest: This section allows members of the State, Local, Consolidated Judicial, and Legislative Retirement Systems who leave employment within five years to receive a return of employee contributions together with the accumulated interest at the current statutory rate of 4.00% on the prior year balance.
- Section 3 - Restoration of Five-Year Vesting: This Section restores the vesting period to 5 years instead of 10 years, for all members of the Teachers' and State Employees' Retirement System (TSERS) and for members of the Consolidated Judicial Retirement System (CJRS) who became members on and after 8/1/2011.
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- *Retirement Technical Changes of 2014 (House Bill 1193):*
 - Section 1 - Firefighter's and Rescue Squad Worker's Pension Fund (FRSWPF): Effective July 1, 2014, this section amends the definition of an inactive member in the FRSWPF to clarify that inactive member means a member who has not made timely payments for two consecutive years G.S. §58-86-2(9) .
 - Section 2 - Effective Date of Pre-1973 Version of Benefits Statute: Effective July 1, 2014, this section amends G.S. 135-5(r) to clarify that a minimum benefit established in 1973 only applies to those retired prior to January 1, 1970.
 - Section 3 - Parallel Changes to the Local Governmental Employees' Retirement System Statute for Transfer Benefit: Effective July 1, 2014, this section adds changes already made for TSERS to the Transfer Benefit statute for LGERS to keep the statutes parallel by allowing LGERS members to annuitize various types of retirement account balances on a market-value basis.
 - Section 4 - Consumer Price Index: Effective January 1, 2015, this section amends various statutes applicable to TSERS, LGERS, and CJRS, to define the term Consumer Price Index as it applies to limits on the amount that can be earned by re-employed retirees and recipients of disability benefits.
 - Section 5 - Correct Changed Statute References: Effective July 1, 2014, this section amends G.S. §135-48.1(2) and G.S. §128-27(c) to correct references to the FRSWPF statutes.
 - Section 6 - Consolidated Judicial Retirement System Definition: Effective July 1, 2014, this section amends the CJRS statute to clarify that a member would have to return to work in CJRS in order to invalidate retirement.
 - Section 7 - Legislative Fund Transfers: Effective July 1, 2014, this section clarifies the procedure for transferring funds to the Department of State Treasurer from the N.C. General Assembly for the closed Legislative Retirement Fund that currently has six surviving members.
 - Section 8 - Typographical Corrections in Disability Income Plan Statute: Effective July 1, 2014, this section corrects the name of the Retirement System to the DIPNC Statute, G.S. §135-103(b)(2) by adding the word, "State" to the title of Teachers' and State Employees' Retirement System.
 - Section 9 - Correct Gender Reference: Effective July 1, 2014, this section amends the Separate Insurance Benefits Fund Statute to reflect gender-neutral language.
- *Retirement Administrative Changes of 2014 (House Bill 1194)*
 - Section 1 - Option Four Benefit Timing Change: Effective January 1, 2015, this section amends the TSERS and LGERS Statutes to change the timing of the offset for Social Security benefits under Option Four. Option Four, one of the payment options available to TSERS and LGERS retirees provides a higher benefit until the retiree becomes eligible for Social Security and a lower benefit after eligibility, with the goal of providing a more constant income stream in total. Since Social Security benefits for a given month are paid in the following month, this can result in the retiree's receiving significantly less total cash flow in the month he/she first becomes eligible for Social Security. This change allows the Retirement System to delay the reduction in the TSERS or LGERS benefit by one month to avoid this situation.
 - Section 2 – One Percent (1%) Penalty Waiver Clarification: Effective October 1, 2014, this Section amends existing penalty language to add the phrase "in lieu of interest" and specifies that

the Board may waive one penalty per employer every five years if the Board finds that the employer has consistently demonstrated good-faith efforts to comply with the set deadline.

- Section 3 - Contributory Death Benefit Change for Retired Members: Effective January 1, 2015, this section puts the CDB on parity with all other death benefits by allowing retirees to name their beneficiary(ies) for the CDB. The CDB is currently paid to the surviving spouse, if there is one, or to the estate if the retiree is not survived by a spouse. The current payment order would continue to apply if the retiree does not name a beneficiary(ies).
- Section 4 - Transparency of Supplemental Insurance Products: Effective October 1, 2014, this section provides additional transparency to the governance of retirement supplemental insurance benefits by requiring the Retirement System to publish annually a report on supplemental insurance offerings that are made available to retirees and the extent to which retirees participate in those offerings.
- Section 5 :
 - Spousal Benefit Changes on Domestic Relations Orders (DRO): This section reduces the administrative burden on the Retirement System by limiting payment of a member's former spouse's benefit under a Domestic Relations Order entered on or after January 1, 2015 to the lifetime of the former spouse. Currently, the benefit can continue to beneficiaries or heirs of the former spouse.
 - Retroactive Correction of Health Insurance Premiums: This section clarifies the ability of the Retirement System to recover any State Health Plan premiums paid on behalf of any member who is later determined to have been ineligible for those benefits.
- Section 6 - Personal Immunity from Civil Liability for State and Local Retirement Boards: Effective October 1, 2014, this section provides personal immunity from civil liabilities for fiduciary decisions made by members of the TSERS and LGERS Boards of Trustees.
- Section 7 Extend 55/5 Reduced Benefit Availability to Rescue Squad Workers: Effective October 1, 2014, this section allows rescue squad workers the opportunity to retire with a reduced retirement allowance at age 55 with 5 years of creditable service.

Legislation Affecting the Retirement System's Members but not Directly RSD Public Policy:

- The Town of Elizabethtown and the Town of Matthews successfully sought entry to the State Health Plan for active employees (Senate Bill 105). These employers are not eligible to add retiree coverage.
- A number of changes to public school teacher compensation were included in Senate Bill 744, including changing the pay schedule to a 6-step schedule and essentially eliminating longevity pay.