

RETIREMENT SYSTEMS DIVISION

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EXECUTIVE DIRECTOR

July 11, 2017

TO: Members of the TSERS & LGERS Boards of Trustees

FM: Sam Watts

RE: Report on 2017 State Legislative Actions Affecting the Retirement Systems Division

Executive Summary/Key Points

Legislative pensions committees heard 26 bills, and 11 bills with retirement provisions passed the legislature, with 95 percent of the Retirement Systems Division's requests being granted within those bills.

EMPLOYER CONTRIBUTIONS AND FUNDING POLICY

- All retirement systems were fully funded by the legislature per the Boards' recommendations
- A minimum employer contribution rate was established for TSERS and LGERS that is equal to the required employee contribution rate of six percent
- Boards' funding policy statutes were updated and modernized
- Additional legal protections for retirement trust funds, to allow favorable treatment for local governments under new accounting standards
- All public employers are now allowed to use employer funds to make additional contributions to the N.C. 457 for employees

BENEFIT POLICY CHANGES

- Retirees in the state pension systems got a one percent Cost of Living Adjustment (COLA)
- Probation and Parole Officers will receive law enforcement pension benefits, but not mandatory 401(k) contributions from employers
- Members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits
- Department is required to lead a study of state employee compensation and benefits
- Retirement System can cancel redundant health coverage of retirees incarcerated in state prison system

ADMINISTRATION OF SYSTEMS AND PREVENTION/DETECTION OF FRAUD, WASTE, AND ABUSE

- Retirement administration was allowed a new ORBiT programmer position
- Funding was also provided to continue moving the retirement process online
- The Boards' will be allowed to reinvest a portion of cost savings from benefit terms changes in order to expedite implementation of those changes
- Members will be allowed to change their beneficiaries online regardless of the number of years of service
- Retirement Systems' Med Board & State Health Plan Board received personal immunity from civil liability
- Payment plans for anti-pension spiking liabilities can be extended up to 27 months
- Pension spiking "watch reports" must be shared with executive officers and governing boards of employing agencies
- Retirement System & State Health Plan may share data with each other for purposes of conducting fraud and compliance investigations and obtain state tax information from the N.C. Dept. of Revenue
- Employing agencies are required to report sick leave credits to the Retirement System consistently
- State Health Plan coverage can now be revoked for making false representation of enrollment eligibility
- Premium split for 50 percent contributory coverage of retirees is clarified as being half of the employer portion of the cost of the premium
- Charter schools have two years to opt in to TSERS instead of the current one year

INVESTMENT POLICY

- State can no longer invest pension funds in companies that Boycott Israel
- Administration of Iran and Sudan divestment programs is simplified by standardization of the three divestment programs.

The Session and Retirement Legislation

The 2017 “long session” of the North Carolina General Assembly (General Assembly) convened on January 25, 2017 and adjourned *to a date certain* on June 30, 2017. In most years, this would mean that the regular session would reconvene the following year, but pursuant to the adjournment resolution, SB 686, this time the legislature is slated to return for a reconvened regular session on August 3, 2017 to consider a limited number of items, which include gubernatorial vetoes, bills that were near the finish line in the receiving chamber, and allowing for the completion of the work on bills in conference committees. The General Assembly will also reconvene the regular session on September 6, 2017 to redraw political districts, and the adjournment resolution also provides for an optional reconvened session on the same topic to begin no later than November 15, 2017. Further, the legislature will reconvene on May 17, 2018 for its typical “short session” to reconsider the second year of the biennial budget, to complete unfinished business, and to take up new matters specifically authorized in the 2017 adjournment resolution. State and Local Retirement Systems are a topic specifically authorized for new legislation in 2018.

The legislature was in session for 171 calendar days, and both chambers met on 93 of those days. During that period of time, there were 924 new House bills or resolutions and 685 new Senate bills or resolutions introduced, for a total of 1,609. To date, 91 bills have been enacted, and 111 are pending signature from the Governor. To date, six bills have been vetoed by Governor Roy Cooper and all five of the vetoes returned while the General Assembly was in session have been overridden already. Legislative action on any other Gubernatorial vetoes will likely be taken up at the session that reconvenes on August 3.

During this session, the pension policy committees were quite active. The Senate Committee on Pensions and Retirement and Aging met five times and the House Committee on Pensions and Retirement met 11 times during the session.

- The Senate committee met on Mar. 22 (SB 117); Apr. 6 (SB 117); May 3 (SB 467); May 10 (SB 257); and Jun. 21 (HB 183, HB 190, HB 115, HB 159, HB 176, HB 58, and HB 299).
- The House committee met on Mar. 1 (HB 9, 24, 115); Mar. 8 (HB 58, 76); Mar. 15 (HB 176, 183); Mar. 22 (HB 159, 161, 273); Mar. 29 (HB 284, 340); Apr. 5 (HB 355, 497); Apr. 20 (HB 633, 160); Apr. 25 (HB 665); May 30 (SB 257); Jun. 15 (SB 117); and Jun. 29 (HB 651).

Of the 26 bills that received hearings in at least one of the pensions committees, 11 were ratified and 15 were not:

BILLS HEARD IN PENSION COMMITTEES IN 2016 AND ULTIMATELY RATIFIED*

SB 257	Appropriations Act of 2017
HB 58	Charlotte Firefighters' Retirement System
HB 115	Retirement Technical Corrections Act of 2017 –AB
HB 159	Charter School TSERS Election
HB 161	Divestment from Companies that Boycott Israel
HB 176	Pensions Integrity Act of 2017 -AB
HB 183	Retirement Administrative Changes Act of 2017 –AB
HB 190	Local Firefighter Relief Fund Eligibility
HB 299	State Health Plan Administrative Changes –AB
HB 355	Firefighters' Death Benefits/Cancers (As a House provision in SB 257)
HB 428	Probation/Parole Officers Retirement (As a House provision in SB 257)

-AB denotes bill was requested by a State agency

BILLS HEARD IN PENSION COMMITTEES IN 2016 AND ULTIMATELY NOT RATIFIED

SB 117	Forfeiture Retirement Benefits/Anti-Pension Spiking
SB 367	Account for Impact Future Benefits/TSERS (As a Senate provision in SB 257)
SB 467	North Carolina Retirement Reform
HB 9	Allow Election Day Service – Retired LEOs
HB 24 = SB 22	Study Unfunded Liability/Retiree Health Fund
HB 76	Increase Fire & Rescue Pension Benefit

HB 160	Forfeiture Retirement Benefits/Judges
HB 273	Charter Schools in the State Health Plan
HB 284	25-Year LEO Retirement Option
HB 340	Special Separation Allowance Firefighters/Rescue Squad Workers
HB 497	Retirement Systems 2% COLAs/Funds (1% COLA was included in final budget)
HB 565	Charlotte Firefighters' Retirement Changes
HB 633	Small Business Retirement Program
HB 651	State Pension/Retiree Health Benefit Fund Solvency“-AB”
HB 665	Sheriffs' Supplemental Pension Fund Changes.

** N.C.G.S. 120-111.3 requires that “every bill, which creates or modifies any provision for the retirement of public officers or public employees or for the payment of retirement benefits or of pensions to public officers or public employees, shall, upon introduction in either house of the General Assembly, be referred to the Committee on Pensions and Retirement of each house.”*

The Retirement Systems Division originally requested 26 policy bill provisions be included in legislation considered by the General Assembly. Of those original 26 provisions, 24 were enacted by the General Assembly, primarily as portions of HB 115, HB 161, HB 175, HB 183, and HB 294. Additionally, 18 retirement and investments provisions enacted in HB 159, HB 161, and HB 299 were developed or re-shaped during the session in collaboration with the committee chairs and bill sponsors. Consequently, 95 percent of the Division's requested 35 policy changes became law. Comparatively, an estimated 13 percent of introduced bills during the session were passed.

State Budget & Appropriations

Since development of the \$23 billion State Budget Act dominates most of the “long session,” the Division closely monitors the budget legislation. Each year, the Division's first and foremost public policy objective is to obtain full funding for the actuarially determined employer contributions (“ADECs,” formerly “ARCs”) for all of the pension plans administered by the Division. That goal was completely achieved for all of the pension plans in SB 257, the Appropriations Act of 2017.

The General Assembly granted the Division authorization to expend funds to hire a new top level programmer for the ORBiT retirement record-keeping software. Additionally, the legislature provided \$900,000 in new non-recurring funding to continue development of the ORBiT online retirement project.

- The 2017 Appropriations Act (Senate Bill 257/Session Law 2017-57): fully funds the Annual Required Contributions for all of the Retirement Systems and has several other sections affecting the Division.
 - Section 35.19: Cost-of-Living Increases for Retirees:
 From and after July 1, 2017, the retirement allowance to or on account of beneficiaries whose retirement began from TSERS, CJRS, or LRS on or before July 1, 2016 shall be increased by one percent (1%) of the allowance payable on June 1, 2017. From and after July 1, 2017, the retirement allowance to or on account of beneficiaries whose retirement commenced after July 1, 2016 but before June 30, 2017 shall be increased by a prorated amount of one percent (1%) of the allowance payable between July 1, 2016 and June 30, 2017. 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, 2016. Members with retirement effective dates between August 1, 2016 and June 1, 2017 received a prorated amount.*

- Sections 2.1, 21, and 35.19: Mandated Employer Contributions & State Appropriations
Appropriates the Department's budget, state pension fund contributions, National Guard, and Fire and Rescue Squad Workers' state contributions for the 2018 and 2019 Fiscal Years.

	2017-2018	2018-2019
PENSION ADEC FUNDING/SHP PREMIUMS		
Teachers' & State Employees' Retirement System*	\$1,616,112,490	\$1,802,549,147
State Health Plan Employer Premiums for Non-Retired Members*	\$1,870,473,741	\$1,945,356,377
Retiree Health Benefit Trust/Retiree Medical*	\$1,018,480,232	\$1,068,182,067
Consolidated Judicial Retirement System*	\$23,311,409	\$25,270,258
Legislative Retirement System*	\$689,248	\$734,153
Disability Income Plan of N.C.*	\$23,457,962	\$23,739,457
State Employee Death Benefit Plan*	\$24,009,099	\$24,297,208
National Guard Pension Fund** (Increased by \$406,080)	\$8,923,153	\$8,923,153
Firefighters & Rescue Squad Worker's Pension Fund (Increased by \$350,000 each year per Board's SCRSP policy)**	\$17,952,208	\$18,302,208
Line of Duty Death Benefits** (Increased by \$216,000 because of benefit eligibility change)**	\$986,500	\$986,500
RETIREMENT ADMINISTRATION FUNDING		
State Treasurer – Retirement/Benefits Non-recurring funds for ORBIT self-service upgrades	\$431,000	\$475,000
State Treasurer – Retirement/Benefits Recurring funds for New ORBIT Programmer Position	\$127,000	\$127,000
State Treasurer – Operations/ABLE Program Staff – Eliminate Three Positions	(\$253,874)	(\$253,874)
OTHER DEPARTMENTAL FUNDING		
State Treasurer – Administration Rent	\$169,000	\$169,000
State Treasurer – Administration Core Banking System Maintenance Contract	\$450,000	\$450,000
State Treasurer – Administration Create Two Advanced Accounting Positions (Plus \$6,000 non-recurring 2017-18)	\$270,000	\$270,000
State Treasurer – Administration Create Two New Internal Auditor Positions (Plus \$6,000 non-recurring 2017-18)	\$161,096	\$161,096
State Treasurer – Investments Reduce General Fund Appropriations for positions that are now receipt-supported	(\$5,688,712)	(\$5,688,712)
State Treasurer – State/Local Government Non-recurring funding for information technology projects to assist local	\$600,000	\$600,000

governments in accounting and financial management		
*Projected Funding **Total Appropriation		

- Section 35.19: Mandated Employer Contribution Rates for Retirement, Health, & Related Benefits
Provides guidance to the Division with regard to contribution rates to charge to agencies participating in the State Retirement Systems as employers

Employer Contribution Rates for Retirement, Health, and Related Benefits

Rates effective July 1, 2017 through June 30, 2018

S.L. 2017-57

Section 35.19

FISCAL YEAR 2018	Total Rate	Breakdown of Rate Type					
		Retirement	Retiree Health Benefit	Disability Income Plan	Death Benefit	Supplemental Retirement^	Qualified Excess Benefit
TSERS General	17.13%	10.77%	6.05%	0.14%	0.16%		0.01%
TSERS Law Enforcement	22.13%	10.77%	6.05%	0.14%	0.16%	5.00%	0.01%
UNC ORP	13.03%	6.84%	6.05%	0.14%			
Com. Coll. ORP	13.03%	6.84%	6.05%	0.14%			
CJRS	37.10%	31.05%	6.05%				
Legislative Retirement System	25.09%	19.04%	6.05%				

^The "Supplemental Retirement" contributions for State Law Enforcement Officers are paid to Prudential for the NC 401(k) Plan.

Employer Contribution Rates for Retirement, Health, and Related Benefits

Rates effective July 1, 2018 through June 30, 2019

S.L. 2017-57

Section 35.19

FISCAL YEAR 2019	Total Rate	Breakdown of Rate Type					
		Retirement	Retiree Health Benefit	Disability Income Plan	Death Benefit	Supplemental Retirement^	Qualified Excess Benefit
TSERS General	18.44%	11.86%	6.27%	0.14%	0.16%		0.01%
TSERS Law Enforcement	23.44%	11.86%	6.27%	0.14%	0.16%	5.00%	0.01%
UNC ORP	13.25%	6.84%	6.27%	0.14%			
Com. Coll. ORP	13.25%	6.84%	6.27%	0.14%			
CJRS	39.53%	33.26%	6.27%				
Legislative Retirement System	26.31%	20.04%	6.27%				

^The "Supplemental Retirement" contributions for State Law Enforcement Officers are paid to Prudential for the NC 401(k) Plan.

- Section 36.19 - 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 year 2016-2017.

<i>State Health Plan</i>		Jul-Dec	Jan - Jun		Jul-Dec	Jan - Jun
<i>Employer Premiums</i>	<u>2017-2018</u>	<u>Monthly</u>	<u>Monthly*</u>	<u>2018-2019</u>	<u>Monthly*</u>	<u>Monthly*</u>

Medicare Eligible	\$4,560	\$372.56	\$387.44	\$4,743	\$387.44	\$403.06
Non-Medicare Eligible	\$5,869	\$479.48	\$498.69	\$6,104	\$498.69	\$518.64

*Monthly amounts are estimates developed by the Retirement Systems Division Staff based on annual maximum amount and may be slightly different than what is eventually adopted by the State Health Plan Board of Trustees.

- Section 35.21 (c) & (d): Repeal Retiree Medical Benefit for Employees First Hired 1/1/2021
Amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, and the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. *Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.*
- Section 21.1: Line of Duty Deaths/Add Esophageal Cancer for Firefighters Only
Creates a presumption that esophageal cancer is occupationally related to firefighting and requires the Industrial Commission to find that a firefighter who dies as a direct and proximate result of esophageal cancer has been killed in the line of duty. This change adds esophageal cancer to the list of occupationally-related diseases for firefighters that already includes mesothelioma, testicular cancer, and intestinal cancer. The Industrial Commission is responsible for determining whether a firefighter's death qualifies as "Line of Duty," while the Retirement System is responsible for paying the claim.
- Section 35.19: Enhance the Benefits of Probation/Parole Officers who are members of TSERS
Defines a probation/parole officer for retirement benefit purposes and changes the definition of law-enforcement officer in G.S. 135-1(11c) to include probation/parole officers with respect to service rendered on or after July 1, 2017. Changing the definition of law-enforcement officer has the following impacts in other areas of the General Statutes:
 - G.S. 135-5(b19) says "A member who is a law enforcement officer" will be eligible for unreduced retirement at age 55 with five years of service as a law-enforcement officer or reduced retirement at age 50 with 15 years of service as a law-enforcement officer. Because G.S. 135-5 is in the same chapter as G.S. 135-1(11c), changing the definition of law-enforcement officer extends those retirement age provisions to probation/parole officers.
 - G.S. 143-166.41(a) says that the separation allowance is available to "every sworn law-enforcement officer as defined by G.S. 135-1(11c)..." By changing the definition in G.S. 135-1(11c), this section causes probation/parole officers to start earning service toward the separation allowance. While only service on or after July 1, 2017 counts toward the requirement to have 5 years of law enforcement service immediately prior to retirement, probation/parole officer service prior to July 1, 2017 will count toward the requirement that half of an employee's career be as a law enforcement officer.
 - G.S. 143-166.60 says that the Separate Insurance Benefits Plan (SIBP) is established for "all law enforcement officers, as defined in G.S. 135-1(11c)..." By changing the definition in G.S. 135-1(11c), the bill makes probation/parole officers eligible for the SIBP.

The bill does not change the definition of law enforcement officer in G.S. 143-166.30(a)(4). That is the definition that applies to the NC 401(k) Plan. Thus, the bill does not extend the law-enforcement 401(k) benefits to probation/parole officers.

Because the bill only changes the definition of law-enforcement officer with respect to service rendered on or after July 1, 2017, most probation/parole officers would have to work for at least five more years to be eligible to retire at a different age or receive the separation allowance.

- Section 35.21 (a) & (b): Study of State Employee Compensation and Benefits
A committee is created to study the compensation and benefits of State employees. Benefits include the value of health care, retirement, leave, and other flexible benefits. The Committee shall do the following:
 - Assess the strength of the compensation and benefits of State employees with regards to recruitment and retention of State employees, including a specific evaluation of the retirement benefits available under the Teachers' and State Employees' Retirement System.
 - Compare the compensation and benefits of State employees with the compensation and benefits provided to other states' employees, as well as large North Carolina employers that may recruit employees with similar skills.
 - Evaluate the current financial condition and the sustainability of the State pension system.
 - By February 1, 2019, submit a report to the General Assembly including data collected, any findings and recommendations, and any suggested legislation to the General Assembly.
 - Membership of the Committee is as follows:
 - (1) the State Treasurer, who shall serve as chair of the Committee; (2) the Executive Administrator of the State Health Plan; (3) the Director of the Office of State Budget and Management; (4) the Director of the Office of State Human Resources; (5) one member appointed by the Board of Governors of the University of North Carolina; (6) one member appointed by the State Board of Education; (7) one member appointed by the State Board of Community Colleges; (8) one member appointed by the President Pro Tempore of the Senate and; (9) One member appointed by the Speaker of the House of Representatives.
- Section 35.16: Mitigate Bonus Leave
Allows State agencies, departments, institutions, the North Carolina Community College System, and the University of North Carolina to offer State employees the opportunity to use or to cash in special bonus leave benefits during the 2017-2019 fiscal biennium that have accrued pursuant to Section 28.3A of S.L. 2002-126, Section 30.12B(a) of S.L. 2003-284, Section 29.14A of S.L. 2005-276, and Section 35.10A of S.L. 2014-100, but only if all of the following requirements are met: (1) employee participation in the program must be voluntary; (2) special leave that is liquidated for cash payment to an employee must be valued at the amount based on the employee's current annual salary rate; and (3) agencies shall collect and report demographic information on the employees who opt to use or cash in special leave under the incentive program. By September 1, 2019, the demographic information shall be reported to the respective agency head or employing agency and to the General Assembly's Fiscal Research Division.
- Section 35.18: Special Annual Leave Bonus
Any person who is (1) a full-time, permanent employee of the State, a community college, or a local board of education on July 1, 2017, and (2) eligible to earn annual leave shall have a one-time additional three days of annual leave credited on July 1, 2017. The additional leave granted in this act shall be accounted for separately with the leave provided by Section 28.3A of S.L. 2002-126, by Section 30.12B(a) of S.L. 2003-284, by Section 29.14A of S.L. 2005-276, and by Section 35.10A of S.L. 2014-100. The leave shall remain available during the length of the employee's employment, notwithstanding any other limitation on the total number of days of annual leave that may be carried forward. Part-time, permanent employees shall receive a pro rata amount of the three days. The additional leave awarded under this section has no cash value and is not eligible for cash in. If not used prior to the time of separation or retirement, the bonus leave cannot be paid out and is lost.

Policy Legislation that was passed in 2017:

- Pensions Integrity Act-AB (House Bill 176): has eight sections affecting the Division. Except as otherwise described in Section 5, this act is effective when it becomes law.
 - Section 1: Fraud Statute Applicability/Compliance Investigations
Amends G.S. 135-1(7b) [recodified as (c) and replaced]; 135-1 (11b); 135-6(q)-(r); 128-21(7b) [recodified as (c) and replaced]; 128-21(11b); and 128-28(r)-(s) to provide guidelines and authorization for the Retirement Systems Compliance team that was recommended by the 2013-2014 LRC study on *Treasurer Investment Targets and State Employee Retirement Options*. Primarily, this change allows the current fraud investigation statute to be used for compliance audits without first suspecting fraud. The Department requested this change in order to conduct compliance audits of agencies without creating a stigma of conducting fraud investigation.
 - Section 1(d): Personal Immunity from Civil Liability for Retirement System Medical Board
Amends G.S. 135-6(k) and 128-28(l) to provide personal immunity from civil liabilities for decisions made by members of the Retirement System Medical Board for actions taken in their official capacity. The Medical Board members are tasked with approving or denying disability applications. Each time the Board denies a disability application, they are disagreeing with the opinion of an applicant's physician. *Consequently, this proposed change removes a disincentive to deny questionable disability applications.*
 - Section 2: Anti-Pension Spiking – CBBC Payment Plans
Amends G.S. 135-4(jj) and 128-26(y) to extend the length of current interest-free payment plans for monies owed to the Retirement System under the anti-pension spiking contribution-based benefit cap from 12 months to up to 15 months to allow agencies more time to correct records and to provide that payment plans may always cross a fiscal year. Optionally offers a payment plan of up to 27 months in length that charges interest at rate equal to the investment return assumption of the Retirement System. Also includes a technical correction to the original law regarding payments.
 - Section 3: Authorize in Writing Municipal Deductions
Creates G.S. 128-38.3 [(c) New] to authorize local governments that had made arrangements with the Department prior to January 1, 2017, to continue to deduct monthly premiums for retiree health insurance from retiree benefits. Disallows additional local governments from making similar arrangements with the Department. Grandfathering would apply to Guilford, Forsyth, New Hanover, and Mecklenburg counties as well as the cities of Charlotte, Greensboro, and Raleigh.
 - Section 4: Require Pension Spiking Reports be Transmitted to Governing Boards
Creates G.S. 115C-436 [(c) New]; G.S. 135-8 [(j) New]; and G.S. 128-30 [(j) New] to require that chief financial officers of participating employers transmit a copy of pension spiking “watch reports” to chief executive officers and to governing boards. Because of the bifurcated funding mechanism used for traditional public schools, the chief financial officer of a public school system must also notify the board of county commissioners of the county in which the local administrative unit is located that the report was received and disclose the number of employees listed in the report.
 - Section 5: Sheriff Sick Leave/Tradeoff with LGERS
Adds G.S. 143-166.84 [(c) New] to allow Sheriffs to use accumulated sick leave for retirement creditable service that typically would be used for LGERS to be used for the Sheriff's supplemental pension fund instead, provided the same leave is not used for both plans. This section is effective July 1, 2017, and expires July 1, 2022.

- Section 6: RSD Fraud or Compliance Investigations to Use State Tax Data
Amends 105-259(b) [(39a) New] to require the N.C. Department of Revenue to provide state tax information to the Retirement Systems Division for use in fraud and compliance investigations.
- Section 7: Certain Local Governments in Retiree Health Benefit Trust
Provides that the State Health Plan Board of Trustees may not approve resolutions allowing local governments that were allowed to participate in the State Health Plan under uncodified local laws S.L. 2004-124, S.L. 2006-7, S.L. 2005-276, and S.L. 2006-249 to enroll retirees in the Retiree Health Benefit Plan after January 1, 2017. The original uncodified laws failed to provide a mechanism for agencies that did immediately enroll retirees to pay for unfunded liability that accrued to the plan for retiree coverage, creating inequity with agencies that enrolled immediately. Affected agencies are: 1) Beaufort County, 2) Mitchell County, 3) Town of Kure Beach, 4) Town of Ocean Isle Beach, and the 5) Town of Tabor City
- Section 8: Fiscal Discipline/Floor on Employer Contribution Rates
Amends 135-8(d)(1); 128-30(d) [(10) New] to set a floor on the employer contribution rates for the state and local retirement systems. Prohibits the state from granting employer contribution holidays.
- Retirement Administrative Changes Act-AB (House Bill 183): has eleven sections affecting the Division. Except as otherwise described in sections two, three, four, five, eight, and nine this act is effective when it becomes law.
 - Section 1: Overpayment Statute of Limitations/Fire and Rescue Overpayments
Amends G.S. 58-86-90; 135-5(n); 128-27(i) to clarify a long standing interpretation that the Retirement System overpayment statutes of limitation against civil action do not limit the ability of the state to collect funds from an ongoing monthly benefit. Additionally, allows the Department to collect overpayments owed to other N.C. pension funds administered by the Department of State Treasurer and the State Health Plan from members of the Firefighters and Rescue Squad Workers' Pension Fund (FRSWPF) who are in receipt of an ongoing monthly benefit.
 - Section 2: Funding Policy Rewrite – Retirement Systems' Board Statutes
Amends G.S. 135-8; 128-27; 128-30; 135-5; 135-7; 135-64; 135-110; 120-4.27; and 143-166.60 and affects the funding policy strictures for the Boards of Trustees of the Teachers' and State Employees' Retirement System (TSERS) and the Local Governmental Employees Retirement System (LGERS). Rewrites funding policy statutes consistent with recommendations from external audit of actuarial practices conducted by the Gabriel Roeder Smith firm in 2009 and findings from 2016 experience review performed for the Boards by the State's consulting actuary. Further, the provisions make changes necessitated for reporting under new pronouncements of the Governmental Accounting Standards Board (GASB) by making changes necessary for the "other post-employment benefit" (OPEB) plans administered by the Boards of Trustees to meet the revised definition of a "trust or equivalent arrangement." GASB Statement No. 74, becomes effective June 30, 2017 for disclosure in the State Comprehensive Annual Financial Report (CAFR). Meeting the trust definition creates more favorable treatment for the OPEB plans on the balance sheet disclosures required for municipal entities under GASB Statement No. 75, which is effective June 30, 2018. The revised statute is effective June 30, 2017.
 - Section 3: Electronic Change for Beneficiaries/Ten Years
Amends G.S. 135-5(f); 135-5(l); 135-63; 128-27(f); 128-27(l); and 120-4.25 to remove statutory prohibitions against current state and local employees changing named beneficiaries online for death benefits only if they have more than ten years of service. Current law requires beneficiary changes be made using paper forms if the member has more than 10 years of service. This change will simplify administration of death benefits for the Retirement System and will facilitate the ability of employees to keep their beneficiary designation up to date. This section is effective January 1, 2018.

- Section 4: Clarify TSERS as a Multi-employer Plan for Accounting Purposes
Amends G.S. 135-1(11) to clarify that TSERS is a multi-employer cost-sharing plan for purposes of required disclosures under the Governmental Accounting Standards Board. This change codifies a long-standing interpretation that has been used by the state for key disclosures of pension liability. This section is effective June 30, 2017.

- Section 5: Legislative Enactment Implementation Arrangement (LEIA)
Creates G.S. 135-7 [(g) New] and 128-29 [(g) New] to provide an efficient method to accelerate cost-savings that could be realized through benefit changes by providing a method to fund updates to the retirement record-keeping system. The provision provides that when the General Assembly passes legislation that reduces the cost of providing retirement benefits; this allows the Board of Trustees to reinvest a portion of any immediate savings toward implementation of the cost-saving measure by the Retirement System. This section is effective October 1, 2017.
 - LEIA Administration: the Board of Trustees shall compile and maintain all records necessary or appropriate for administration. The Board of Trustees shall have full discretionary authority to interpret, construe, and implement the LEIA and to adopt such rules and regulations as may be necessary or desirable to implement the provisions of the LEIA.

 - LEIA Funding: when the General Assembly creates or modifies any provision for the retirement of, or payment of retirement benefits to, public officers or public employees that has a cost savings as measured by actuarial note required by Article 15 of Chapter 120 of the General Statutes, the Board of Trustees may direct up to one hundredth percent (0.01%) of the required contributions to the affected Retirement System to fund the LEIA. These funds must be deposited in a separate fund from the fund into which regular employer contributions are deposited for the Retirement System. The LEIA has a sunset after five years, but can be renewed by the legislature. Thus, currently the Board of Trustees cannot direct any employer contributions into the LEIA after November 1, 2021.

 - Allocation of LEIA Funds: The Board may allocate LEIA funds to the implementation of legislative provisions regarding the retirement of, or payment for retirement benefits to, public officers or public employees, subject to the following restrictions:
 - The Board of Trustees must identify individual implementation projects that will be paid for with LEIA funds. These implementation projects must be necessitated by a specific statute or session law that was enacted within five years of the allocation of the funds. The Board must also identify the number of years for which each individual implementation project will be paid for with LEIA funds.
 - For implementation projects that will be paid for with LEIA funds for a period of one year or less, the Board of Trustees must determine that the cost savings from implementing the project is projected to be no less than half of the amount of LEIA funds utilized to pay for implementation.
 - For implementation projects that will be paid for with LEIA funds for a period of greater than one year, but not more than four years, the Board of Trustees must determine that the long-term cost savings from implementing the project is projected to be at least three times greater than the cost of implementation.
 - No implementation project shall be paid for with LEIA funds for a period of more than four years.

 - Treatment of Unused LEIA Assets: Any assets of the LEIA not used to pay allowed administrative expenses for timely administrative implementation of legislative provisions shall be transferred to the Retirement System as an additional employer contribution.

- LEIA Reporting: The Department of State Treasurer shall report to the Board of Trustees, the Joint Legislative Commission on Government Operations, and the Fiscal Research Division on or before August 1 of each year on the (i) amounts and sources of funds collected by year pursuant to this section and (ii) the amounts expended, the projects for which those funds were expended, and the current status of the projects. The Board of Trustees shall also post this report on its public Web site.
- Section 6: Counterfeit Warrants
Amends G.S. 147-68.2 to allow the State Treasurer to protect portions of records regarding outstanding, unpaid state checks, called “warrants,” to the extent that the information contained therein could be used to counterfeit state checks. State Banking System staff ascertained that there was sufficient information that is public record that could enable a counterfeiter to successfully pass a bad check to a community bank that does business with the State. The State Banking System would reject the check, but the counterfeit warrant could result in a loss for the community bank. Implementation of this new law will require administrative rule-making.
- Section 7: Enable Additional Public Employer Contributions to N.C. 457 Plan
Amends G.S. 147-9.4 to allow all public employers to make additional employer contributions to employee 457 retirement accounts. This change provides parity for all public agencies to participate in this supplemental retirement program.
- Section 8: Applicability of Deposit Fee from State Funds
Amends G.S. 143B-426.40G(b) to remove \$15 fee for overdrawn checks to the State Banking System for agencies that only have State funds. Currently, the fee may not be paid with state funds and requires that an agency that only has state funds pay the fee from personal funds of the agency’s Chief Financial Officer. This section is effective October 1, 2017.
- Section 9: Standardize Employer Reporting of Sick Leave
Amends G.S. 135-4(e); 128-26(e) to requires that creditable service for unused sick leave be reported to the Retirement System in accordance with a standardized definition of hours per day and days in a week applicable for Retirement System purposes only. This change clarifies the process to make the sure that agencies are reporting their hours consistent with the current law. Specifically, “days of sick leave standing to a member’s credit at retirement shall be determined by dividing the member’s total hours of sick leave at retirement by the hours per month such leave was awarded under the employer’s duly adopted sick leave policy as the policy applied to the member when the leave was accrued,” which means that sick leave must be reported to the Retirement System on a consistent basis. As such, this change is a reporting requirement only and does not increase or decrease the amount of sick leave credited to a member. This section is effective January 1, 2018.
- Section 10: Technical Correction/Venture Capital Multiplier Fund
Amends G.S. 147-69.2A(a) to provide that the professional management firm selected to administer the venture capital investment fund must be “subject to the rules and regulation of,” rather than “registered with,” the US Securities and Exchange Commission.
- Section 11: Technical Correction/Achieving a Better Life Act (ABLE)
Amends G.S. 147-86.73(g1) to replace the phrase “application form” with “application packet” regarding the required location of Medicaid Clawback disclosures.
- Retirement Technical Corrections Act-AB (House Bill 115): has six sections affecting the Division. All sections of this act are effective when it became law.
 - Section 1: Definition of Average Final Compensation (AFC) and Vacation Payouts
Amends G.S. 135-1(5); and 128-21(5) to prevents any member whose AFC period was not his or her final four years from arguing that his or her AFC should include the value of the vacation

leave he accrued at the point his or her compensation was reduced. This is a long standing interpretation of current statutes that is being codified for additional transparency.

- Section 2: Educational Leave Clarification
Amends G.S. 135-8(b)(5); and 128-30(b)(4) to clarify that members on educational leave for programs where they receive a stipend are eligible to purchase their service. Examples of what is allowed include N.C. Principal Fellows Program, and the N.C. Teaching Fellows Program.
- Section 3: OPEB Committee/Funding Policy/GASB Change
Adds a new subsection (i) to G.S. 135-48.12, the Retiree Health Plan valuation committee statute to address the requirements in paragraphs B129, B141-145 of GASB 75. Specifies that by selecting the OPEB valuation criteria, the Committee is formally adopting a funding policy.
- Section 4: ABLE Contracting with Other States
Amends G.S. 147-86.72 (h) and [(i) New] to clarify authorization for the ABLE Board of Trustees to enter into a contracting relationship with another state to provide the N.C. ABLE program. Amendment makes the existing authority more transparent. In order realize cost efficiencies from greater economies of scale, N.C. has joined the National ABLE Alliance which also includes the states of Alaska, Illinois, Kansas, Minnesota, Nevada, Pennsylvania, and Rhode Island.
- Section 5: Disability Income Plan of NC Investment Statute Clarification
Amends G.S. 147-69.2 to correct an inadvertent omission by adding the “Disability Income Plan of North Carolina” to the list of funds in 147-69.2 that invested by the Treasurer. This was already provided for in the Disability Income Plan statute, but was not echoed in the investment statute. Consequently, this change increases transparency of the investment responsibility, but has no substantive impact.
- Section 6: Repeal Outdated Requirement
Repeals 147-69(12)(e), which required the Investment Management Division to make rules by December 31, 2016 on investment program reporting deemed by Rules Review Commission staff to not be appropriate subject matter for promulgation.
- State Health Plan Administrative Changes.-AB (House Bill 299): has several sections affecting the Division. Except as otherwise described in various sections, this act is effective when it becomes law.
 - Section 1: Allow Revocation of Coverage for Misrepresentations Made for Eligibility or Enrollment
Amends G.S. 135-48.44(a)(6) to clarify that an individual would lose coverage under the plan on the last day of the month the individual is found to have made a false representation of a material fact regarding eligibility or enrollment information. Currently, individuals lose coverage only if they make false representations of material facts in a claim for reimbursement.
 - Section 2: Clarify Premium Split between State & Retirees for 50 Percent Contributory Coverage
Amends G.S. 135-48.40(c)(2) to clarify that a retiree’s premium for one-half contributory coverage is half of the employer contribution established by the General Assembly plus the employee contribution. In order make this more transparent, the provision defines “total premium” as the sum of the Plan’s employer contribution rate and the employee or retiree’s contribution rate.
 - Section 3: Clarify Coverage of Newly Born Children of Existing Covered Participants
Amends G.S. 135-48.42(a) to clarify that children born to covered employees will be covered from birth as long as the participants notify the Plan within 30 days of birth and pay premiums retroactive to the first day of the month in which the child was born.
 - Section 4: Personal Immunity from Civil Liabilities for the State Health Plan Board of Trustees
Amends G.S. 135-48.20 to provide personal immunity from civil liabilities for decisions made by members of the State Health Plan Board of Trustees for actions taken in their official capacity.

- Section 5 & 6: Provide Tools to Conduct Fraud Investigations
Creates G.S. 135-48.1(1) [New]; and 135-48.16 [New] to allow for expansion of fraud and compliance investigations and to allow for information sharing between the State Health Plan and other components of the Department of State Treasurer for the purposes of preventing fraud, waste, and abuse. Provides access to records for purposes of conducting an investigation, and delineates procedures for reporting on investigations and maintaining records of investigations.
- Section 7: SHP Fraud and Compliance Investigations to Use State Tax Data
Amends G.S. 105-259(b) to require the N.C. Department of Revenue to provide state tax information to the State Health Plan for use in fraud and compliance investigations.
- Section 8: Eliminate Redundant Coverage of Incarcerated Retirees
Amends G.S. 135-48.41 to provide that if a retiree is a prisoner serving an active sentence in the State prison system and covered under health care paid for by the Department of Correction, then the incarcerated retiree is not eligible for coverage under the State Health Plan but would be solely covered by health services provided by the State prison system.
- Section 9: Fraudulent Payment Recovery from Retirement Benefit Checks
Amends 135-9; 128-31; 58-86-90; 120.4.29; and 127A-40(j) [New] to allow the State Health Plan to collect monies owed to it from State Retirement System checks of members that have defrauded the State Health Plan.
- Charter School/TSERS Election.-AB (House Bill 159): extends the time a charter school has to elect to become a participating employer in the Teachers' and State Employees' Retirement System (TSERS) from one year to two years.
- Divestment from Companies That Boycott Israel (House Bill 161): introduces a new divestment program prohibiting the state pension fund from investing in, and state agencies from doing business with, companies that boycott Israel. The new law was not requested by the Department of State Treasurer and the Department did not make any public statements in favor or in opposition of the new divestment program. However, the Department did request that the existing compliance requirements for the Iran and Sudan divestment programs be conformed to the new program. These important updates and corrections are needed to harmonize the state's divestment statutes and to decrease complexity in the Treasurer's investment operations. The Boycott Israel Divestment requirements were effective when it the bill became law, the remaining provisions of the act, which are the Iran and Sudan divestment conforming changes are effective October 1, 2017.
- GSC Technical Corrections (House Bill 229/ Section 33.2): amends Session Law 2016-108 to correct a typographical error that prevented a 2015 amendment to Senate Bill 886 from being codified in the General Statutes. The affected section of the 2016 law requires that annual actuarial valuations to the TSERS Board and LGERS Board include a supplementary section that provides an analysis of assets on a market basis using the 30-year U.S. Treasury rate as of December 31 of the year of the valuation as the discount rate. The Department implemented the provision in 2016, despite the typographical error.