North Carolina
Future of Retirement
Study Commission

Summary of Decisions Made and Being Considered as of October 1, 2010

We remind you that the Commission is only making recommendations. The benefits are specified in statute and statutes can only be changed through the legislative process.

Recommendations Made in August and September Meetings

- Provide all employees (current and future) a choice between the current retirement system (TSERS or LGERS) and a defined contribution plan, subject to the following parameters:
    - The state and local governments should provide a high level of financial education to help employees make the choice.
    - The current defined benefit plan will be the default if someone does not make a choice.
    - The new benefits should have the same cost to employers as the current benefits. The choice itself is expected to increase the overall cost of the system, so the employee contribution for new hires would be higher than 6% of pay.
    - Members should have an initial choice within 60 days of hire and at least one additional opportunity to switch to the other system at a later point in their careers.
    - The additional choice should also be cost neutral to the employers, so any transfer between systems should be done on an actuarially equivalent basis.
    - The Retirement System will manage and regulate the DC option perhaps in conjunction with the existing 401(k) and 457 plans offered by the State. The universities would expand the ORP to all employees.
    - Vesting in the employer contributions would occur at 5 years.
- For new hires, change the interest rate on refunds of employee contributions from a fixed 4% to a market rate of interest (for example LIBOR or Treasury Bill rates).
- For new hires and current employees, provide interest on employee contributions even if the employee is not vested (has less than 5 years of service) when she withdraws her contributions.

Recommendations to Be Considered in October 18 Meeting

- For new hires, set a minimum age for unreduced retirement benefits. Currently, employees can retire with unreduced benefits at any age if they have 30 years of service. The Commission will consider recommending that employees also be at least a certain age in order to retire with unreduced benefits after 30 years.
- Recommending that all employees be automatically enrolled in a supplemental defined contribution plan, in addition to the basic DB or DC plan. Employees would be able to opt out at any time. The Commission may wish to recommend a default contribution rate and investment option. The Commission may recommend automatically enrolling all current employees or only new hires.
- The Commission may consider any other remaining items it wishes to wrap up before writing the report.

325 NORTH SALISBURY STREET, RALEIGH, NORTH CAROLINA 27603-1385 · (919) 508-5176 · FAX (919) 508-5167
WWW.NCTREASURER.COM

Recommendations Rejected by the Commission

It is impossible to list every idea mentioned in the over 30 hours that the Commission has met, but here is a partial list of the items that the Commission rejected by a vote or polling of interest:

- Combination (hybrid) plan that blends a smaller defined benefit plan with a defined contribution plan.
- Defined contribution plan only.
- Cash balance plan.
- Indexing average final compensation between leaving employment and commencing benefits.
- Multiplier that increases with service before 30 years.
- Higher multiplier for service after 30 years.
- Automatic cost-of-living adjustments (COLAs).
- Reduced multiplier.
- Varying employee contributions or benefits with investment returns.
- Lengthening the averaging period for compensation or limiting the increase in compensation that will be used in the calculation of benefits.
- Provisions to make it easier for retirees to return to work and keep receiving benefits.
- Changing the number of years required to vest.

The Commission also did not make any recommendation on the power of the LGERS Board of Trustees to grant COLAs. However, it may decide to reconsider this matter in October.