NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

JANET COWELL
TREASURER

STEVE TOOLE
RETIREMENT SYSTEMS DIRECTOR

DRAFT as of 1/8/2014
Pension Spiking Prevention Act of 2014

North Carolina's 875,000 public employees and retirees rely on the integrity, knowledge, and judgment of the Department of State Treasurer to ensure their pensions are protected. In helping to secure the pension, the state must have the tools and authority to reduce the risk of fraud and abuse, and to guard the fiscal integrity of the retirement systems. The attached legislative proposal addresses the issue in five of ways:

SECTION ONE: Anti Pension Spiking – Prevent Manipulation of the Definition of Compensation
Employers have made several recent attempts to manipulate the average final compensation of highly compensated individuals. Section One clarifies the ability of the Retirement Systems division to disallow remuneration that doesn't meet the definition of retirement compensation for purposes of calculating benefits. It also allows the division to use statistical evidence to identify possible pension spiking.

SECTION TWO: Anti-Pension Spiking – Contribution-Based Benefit Cap
As recommended by Buck Consultants, the retirement system's actuary, this provision allows the Boards of Trustees of the state and local systems to establish a contribution-based benefit cap. The cap will be established for employees hired on or after 1/1/2015 whose average final compensation exceeds $50,000. The cap is established quinquennially based on findings the actuarial experience study and be such that it would not have reduced allowances for more than one half of one percent of members retiring in each of the previous five years. Members can make additional payments to the retirement systems to receive the parts of their allowances that would have exceeded the cap.

SECTION THREE: Anti Pension Spiking – Pension Spiking Accountability Measure
Section Three provides benefit purchase mechanism for the employee or employer to pay for the actuarial impact of the disallowed compensation under sections one and two in order to have it counted toward the benefit.

SECTION FOUR: Restore Vesting Period
The section also restores the vesting period to five years, instead of 10 years, for all members of the state retirement system hired after 8/1/2011 and for members of the Consolidated Judicial Retirement System.

SECTION FIVE: Return of Contributions with Accumulated Interest
This section allows state and local government employees who leave employment within five years to receive their contributions and with accumulated interest at the current statutory rate of four percent. Currently, all employees receive interest after five years, and only employees who were involuntarily terminated receive interest before five years.

SECTION SIX: Effective Date
The act becomes effective 7/1/2014, meaning all provisions become effective on that date unless otherwise specified. (Section four has an effective date of 8/1/2011)

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325 NORTH SALISBURY STREET, RALEIGH, NORTH CAROLINA 27603-1385
Telephone (919) 807-3050 or (877)627-3287 toll free Fax (919) 508-5350
www.myncretirement.com