

Decisions on Teachers' and State Employees' Retirement System (TSERS)

Why is this an issue? Valuation report shows that the new Annual Required Contribution (ARC) of 8.76 percent is higher than the state budget of 8.69 percent for fiscal year ending 2014. Therefore the state budget allocated from the General Fund will need to increase \$7.0 million to meet the new ARC for fiscal year ending 2015.

What is the reason for the difference? In October 2012, Buck reported an ARC for fiscal year ending 2014 of 8.69 percent based on the December 31, 2011 valuation. In April 2013, Buck projected an ARC for fiscal year ending 2015 of 9.25 percent reflecting actual market returns during calendar year 2012. The state budget appropriated 8.69 percent for both years in the biennium (i.e., fiscal years ending 2014 and 2015) and a reserve fund of \$58.1 million was set aside that could cover the projected ARC of 9.25 percent for fiscal 2015. However, in October 2013, Buck reported an ARC for fiscal year ending 2015 of 8.76 percent based on the December 31, 2012 valuation. This valuation reflected no across-the-board pay increases during 2012.

Three Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation to Fund the ARC:

Recommend the legislature increase the appropriation to 8.76 percent. The additional appropriation from the General Fund would be \$7.0 million. The additional funds would cover the ARC.

Option Two – Recommend an Increase to Current Appropriation to Fund the ARC and a 1% COLA:

Recommend the legislature increase the appropriation to 9.13 percent. The additional appropriation from the General Fund would be \$44.0 million in year one. The additional funds would cover the ARC and a 1% COLA. The COLA would produce, on average, a \$17 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$361.3 million.

Option Three – Recommend an Increase to Current Appropriation to Fund the ARC, Increase Multiplier for Active Employees, and a Corresponding Increase for All Beneficiaries:

Recommend the legislature increase the appropriation to 9.17 percent. The additional appropriation from the General Fund would be \$48.0 million in year one. The additional funds would cover the ARC and increase benefits for current active employees with an equivalent increase to all beneficiaries. The accrual rate would increase from 1.82 percent to 1.83 percent with a corresponding 0.55 percent increase to all beneficiaries. The additional cost for future hires is 0.07 percent of pay. The total amount to be funded over time for the increased multiplier is the increase in liability of \$ 414.3 million.

Decisions on Consolidated Judicial Retirement System (CJRS)

Why is this an issue? Valuation report shows that the new Annual Required Contribution (ARC) of 26.55 percent is less than the state budget of 28.01 percent for fiscal year ending 2014. Therefore the state budget allocated from the General Fund can decrease by \$1,019,080 to meet the new ARC for fiscal year ending 2015.

What is the reason for the difference? In October 2012, Buck reported an ARC for fiscal year ending 2014 of 28.01 percent based on the December 31, 2011 valuation. In October 2013, Buck reported an ARC for fiscal year ending 2015 of 26.55 percent based on the December 31, 2012 valuation. This valuation reflected higher than assumed market returns during 2012 and no across-the-board pay increases during 2012.

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend No Change to Current Appropriation:

Recommend the legislature leave the appropriation at 28.01 percent. **Staff recommends this option** in order to pay down the unfunded liabilities sooner than projected and reduce the probability of the future need to increase the appropriation. (The system is 91.2 percent funded.)

Option Two – Recommend a Decrease to Current Appropriation to Fund ARC:

Recommend the legislature decrease the appropriation to 26.55 percent. The appropriation savings from the General Fund would be \$1,019,080.



North Carolina Retirement Systems SM

Prepared by Staff of the Retirement Systems Division,
Office of the State Treasurer
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Decisions on North Carolina National Guard Pension Fund

Why is this an issue? Valuation report shows that the new recommended Employer Contribution of \$5,259,546 for fiscal year ending 2015 is less than the state budget of \$7,007,443 for fiscal year ending 2014. Therefore the state budget allocated from the General Fund could decrease \$1,747,897 to meet the new ARC.

What is the reason for the difference? In October 2012, Buck reported an ARC for fiscal year ending 2014 of \$5,349,092 based on the December 31, 2011 valuation. The state budget appropriated \$7,007,443 for fiscal year ending 2014. In October 2013, Buck reported an ARC for fiscal year ending 2015 of \$5,259,546 based on the December 31, 2012 valuation. This valuation reflected higher than assumed market returns during 2012.

Two Policy Options for Consideration by the Board of Trustees

Option One – Recommend no change to Current Appropriation:

Recommend the legislature leave the appropriation at \$7,007,443. **Staff recommends this option** as funded ratio of this plan of 73.3% is significantly less than the other Retirement Systems.

Option Two – Recommend a Decrease to Current Appropriation:

Recommend the legislature decrease the appropriation to \$5,259,546. The appropriation savings would be \$1,747,897.



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Prepared by Staff of the Retirement Systems Division,
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January 16, 2014

**SUMMARY OF ALTERNATIVES
FOR PRESENTATION TO THE 2014 GENERAL ASSEMBLY**

<u>Retirement System</u>	<u>Employer Contributions</u>	<u>Enhance Benefits</u>
Teachers' and State Employees'	Increase employer contribution rate ¹ by 0.07% for a cost in the first year to the General Fund of \$7,000,000 and to the Highway Fund of \$218,050	No undistributed gain available for benefit enhancements
Consolidated Judicial	Decrease employer contribution rate ² by 1.46% for a savings in the first year to the General Fund of \$1,019,080	Increases equal to 1.46% of members covered payroll
National Guard	Decrease employer contribution ³ by \$1,747,897	Increases equal to \$1,747,897

FOOTNOTES:

¹The total appropriated employer contribution rate for fiscal year ending June 30, 2014 is 8.69%. The estimated payrolls for the 2013 Session of the General Assembly were \$10,000,000,000 for the General Fund and \$311,500,000 for the Highway Fund.

²The total appropriated employer contribution rate for fiscal year ending June 30, 2014 is 28.01%. The estimated payroll for the 2013 Session of the General Assembly was \$69,800,000.

³The total appropriated employer contribution for fiscal year ending June 30, 2014 is \$7,007,443.

**TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
COST OF CERTAIN BENEFIT CHANGES AFFECTING
FISCAL YEAR ENDING JUNE 30, 2015 BUDGET**

	Percentage Payroll ¹	Appropriation 2014-15	
		General Fund ²	Highway Fund ³
<u>Benefit Changes</u>			
<u>Post-Retirement Increases</u>			
Each 1% increase to Beneficiaries as of July 1, 2013 payable beginning July 1, 2014 and prorated percentage to 2013-14 Beneficiaries	0.37% ⁴	\$ 37,000,000	\$ 1,152,550
<u>Enhance Benefit Structure</u>			
Each 0.01% increase in the defined benefit formula accrual rate from current 1.82% with a 0.55% increase to all Beneficiaries	0.41% ⁵	\$ 41,000,000	\$ 1,277,150

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2014 is 8.69% of covered members' payroll and the accrued liability liquidation period is 12 years. This means that the benefits described above will be fully funded after paying the respective percentage of payroll for approximately 12 years.

²Assumes General Fund payroll of covered members at \$10,000,000,000.

³Assumes Highway Fund payroll of covered members at \$311,500,000.

⁴The total amount to be funded over time is the increase in liability of \$361.3 million.

⁵The total amount to be funded over time is the increase in liability of \$414.3 million. The additional cost for future hires is 0.07 percent of pay.

**CONSOLIDATED JUDICIAL RETIREMENT SYSTEM
COST OF CERTAIN BENEFIT CHANGES AFFECTING
FISCAL YEAR ENDING JUNE 30, 2015 BUDGET**

	<u>Percentage Payroll¹</u>	<u>Appropriation 2014-15 General Fund²</u>
<u>Benefit Changes</u>		
<u>Post-Retirement Increases</u>		
Each 1% increase to Beneficiaries as of July 1, 2013 payable beginning July 1, 2014 and prorated percentage to 2013-14 Beneficiaries	0.59% ³	\$411,820

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2014 is 28.01% of covered members' payroll and the accrued liability liquidation period is 12 years. This means that the benefits described above will be fully funded after paying the respective percentage of payroll for approximately 12 years.

²Assumes General Fund payroll of covered members at \$69,800,000.

³The total amount to be funded over time is the increase in liability of \$3.0 million.