North Carolina
Total Retirement Plans

STATE TREASURER OF NORTH CAROLINA
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## *Anti-Pension Spiking Contribution-Based Benefits Cap*

- The Fiscal Integrity Act of 2014 (House Bill 1195) was passed by the General Assembly and signed into law by the Governor. The law addresses the practice of "pension spiking", which is a substantial increase in compensation that results in unusually high liabilities to the North Carolina Retirement Systems.
- Pension spiking is not a pervasive problem in North Carolina, but the Retirement Systems' actuary found enough instances that a solution was warranted.
- The law ensures that all members of the Retirement Systems and citizens across North Carolina do not bear the additional cost of these isolated compensation decisions.
- The law allows government entities to maintain the flexibility to set compensation.
- The law only applies to employees with an average final compensation of $100,000 or more (adjusted annually for inflation) and will only directly impact a small number of those individuals.
- While individual government agencies will continue to have flexibility to set compensation, they will incur additional costs in instances that trigger anti-pension spiking measures.
- An individual who became member of the Retirement Systems before January 1, 2015, <u>cannot</u> have his or her or retirement benefit reduced by the new law.
- For members who entered the Retirement System from which they retire before January 1, 2015, individual government agencies (the member's last employer prior to retirement) are required to submit the additional contribution to the Retirement Systems Division on behalf of retiring members (employees) whose benefit amount exceeds the contribution-based benefit cap. Unforeseen pension liabilities may result from a member's retirement even if they did not receive substantial compensation increases or large benefit conversions during their average final compensation period.
- For members who enter the Retirement System from which they retire on or after January 1, 2015, the employer or employee may choose to pay the additional contribution, or the employee may choose to receive a reduced benefit.
- This act establishes a contribution-based cap on pension benefits for members retiring from TSERS and LGERS. The amount of the additional payment required under the law varies based on multiple factors. The Retirement Systems Division will work with employers to calculate potential impacts.
- The Retirement Systems Division provides a monthly report to each employer listing those employees whose retirement would most likely require an additional employer contribution as a result of the benefit cap, if they were to retire in the next year.

**If you have questions about <u>current or potential employees</u> that could be affected by the Contribution-Based Benefit Cap, contact 1-877-627-3287 or nc.retirement@nctreasurer.com .**