

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

Issue: Valuation report shows that the new Annual Required Contribution (ARC) of 8.69% is less than the state budget of 9.15% for fiscal year ending 2015. Therefore, the state budget allocated from the General Fund can decrease by \$45.5 million to meet the new ARC for fiscal year ending 2016.

What is the reason for the difference? In October 2013, Buck reported an ARC for fiscal year ending 2015 of 8.76% based on the December 31, 2012 valuation. In January 2014, Buck projected an ARC for fiscal year ending 2016 of 8.61% reflecting actual market returns during calendar year 2013. The state budget appropriated 9.15% for fiscal year ending 2015, which reflected legislation signed into law during 2014. However, in October 2014, Buck reported an ARC for fiscal year ending 2016 of 8.69% based on the December 31, 2013 valuation. This valuation reflected no across-the-board pay increases during 2013.

### Four Policy Options for Consideration by the Board of Trustees

#### Option One – Recommend No Change to Current Appropriation:

Recommend the legislature leave the appropriation at 9.15%. This option would pay down the unfunded liabilities sooner than projected and reduce the probability of the future need to increase the appropriation.

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

Recommend the legislature decrease the appropriation to 8.69%. The appropriation savings from the General Fund would be \$45.5 million in year one.

#### Option Three – Recommend a Decrease to Current Appropriation to Fund the ARC and a 1% COLA:

Recommend the legislature decrease the appropriation to 9.08%. The appropriation savings from the General Fund would be \$6.9 million in year one. This 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 \$378.9 million.

#### Option Four – Recommend a Decrease to Current Appropriation to Fund the ARC, Increase Multiplier for Active Employees, and a Corresponding Increase for All Beneficiaries (including a COLA for retirees):

Recommend the legislature decrease the appropriation to 9.11%. The appropriation savings from the General Fund would be \$4 million in year one. This would cover the ARC and increase benefits for current active employees with an equivalent increase to all beneficiaries (including a COLA for retirees). The accrual rate would increase from 1.82% to 1.83% with a corresponding 0.55% increase to all beneficiaries. The additional cost for future hires is 0.07% of pay. The total amount to be funded over time for the increased multiplier is the increase in liability of \$ 424.2 million.



Prepared by Staff of the Retirement Systems Division,  
Office of the State Treasurer  
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## Decisions on Consolidated Judicial Retirement System (CJRS)

Issue: Valuation report shows that the new Annual Required Contribution (ARC) of 26.37% is less than the state budget of 27.21% for fiscal year ending 2015. Therefore the state budget allocated from the General Fund can decrease by \$588,000 to meet the new ARC for fiscal year ending 2016.

What is the reason for the difference? In October 2013, Buck reported an ARC for fiscal year ending 2015 of 26.55% based on the December 31, 2012 valuation. The state budget appropriated 27.21% for fiscal year ending 2015, which reflected legislation signed into law during 2014. However in October 2014, Buck reported an ARC for fiscal year ending 2016 of 26.37% based on the December 31, 2013 valuation. This valuation reflected higher than assumed market returns during 2013 and no across-the-board pay increases during 2013.

### Three Policy Options for Consideration by the Board of Trustees

Option One – Recommend No Change to Current Appropriation:

Recommend the legislature leave the appropriation at 27.21%. This option would pay down the unfunded liabilities sooner than projected and reduce the probability of the future need to increase the appropriation.

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

Recommend the legislature decrease the appropriation to 26.37%. The appropriation savings from the General Fund would be \$588,000.

Option Three – Recommend a Decrease to Current Appropriation to Fund the ARC and a 1% COLA:

Recommend the legislature decrease the appropriation to 27.01%. The appropriation savings from the General Fund would be \$140,000. This would cover the ARC and a 1% COLA. The COLA would produce, on average, a \$50 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$3.3 million.



**North Carolina Retirement Systems** SM

Prepared by Staff of the Retirement Systems Division,  
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## Decisions on Legislative Retirement System (LRS)

Issue: Valuation report shows that the new Annual Required Contribution (ARC) of 1.80% is greater than the state budget of 0.00% for fiscal year ending 2015. Therefore, the state budget allocated from the General Fund will need to increase by \$65,160 to meet the new ARC for fiscal year ending 2016.

What is the reason for the difference? In October 2013, Buck reported an ARC for fiscal year ending 2015 of 0.00% based on the December 31, 2012 valuation. The state budget appropriated 0.00% for fiscal year ending 2015. In October 2014, Buck reported an ARC for fiscal year ending 2016 of 1.80% based on the December 31, 2013 valuation.

## Two Policy Options for Consideration by the Board of Trustees

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

Recommend the legislature increase the appropriation to 1.80%. The additional appropriation from the General Fund would be \$65,160 in year one. 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 2.60%. The additional appropriation from the General Fund would be \$94,120 in year one. This would cover the ARC and a 1% COLA. The COLA would produce, on average, a \$7 per month increase per retiree. The total amount to be funded over time for the COLA is the increase in liability of \$0.2 million.



**North Carolina Retirement Systems** SM

Prepared by Staff of the Retirement Systems Division,  
Office of the State Treasurer  
January 6, 2015

## Decisions on North Carolina National Guard Pension Fund

Issue: Valuation report shows that the new recommended Employer Contribution of \$5,872,935 for fiscal year ending 2016 is less than the state budget of \$6,039,274 for fiscal year ending 2015. Therefore, the state budget allocated from the General Fund could decrease \$166,339 to meet the new ARC.

What is the reason for the difference? In October 2013, Buck reported an ARC for fiscal year ending 2015 of \$5,259,546 based on the December 31, 2012 valuation. The state budget appropriated \$6,039,274 for fiscal year ending 2015, which reflected legislation signed into law during 2014. In October 2014, Buck reported an ARC for fiscal year ending 2016 of \$5,872,935 based on the December 31, 2013 valuation. This valuation reflected higher than assumed market returns during 2013.

## 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 \$6,039,274. **Staff recommends this option** as funded ratio of this plan of 73.8% is significantly less than the other Retirement Systems.

### Option Two – Recommend a Decrease to Current Appropriation:

Recommend the legislature decrease the appropriation to \$5,872,935. The appropriation savings would be \$166,339.



**North Carolina Retirement Systems** SM

Prepared by Staff of the Retirement Systems Division,  
Office of the State Treasurer  
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**SUMMARY OF ALTERNATIVES  
FOR PRESENTATION TO THE 2015 GENERAL ASSEMBLY**

<b><u>Retirement System</u></b>	<b><u>Employer Contributions</u></b>	<b><u>Enhance Benefits</u></b>
Teachers' and State Employees'	Decrease employer contribution rate <sup>1</sup> by 0.46% for a savings in the first year to the General Fund of \$45,498,600 and to the Highway Fund of \$1,513,400	Increases equal to 0.46% of members covered payroll
Consolidated Judicial	Decrease employer contribution rate <sup>2</sup> by 0.84% for a savings in the first year to the General Fund of \$588,000	Increases equal to 0.84% of members covered payroll
Legislative	Increase employer contribution rate <sup>3</sup> by 1.80% for a cost in the first year to the General Fund of \$65,160	No undistributed gain available for benefit enhancements
National Guard Pension Fund	Decrease employer contribution <sup>4</sup> by \$166,339	Increases equal to \$166,339

**FOOTNOTES:**

<sup>1</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2015 is 9.15%. The estimated payrolls for the 2014 Session of the General Assembly were \$9,891,000,000 for the General Fund and \$329,000,000 for the Highway Fund.

<sup>2</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2015 is 27.21%. The estimated payroll for the 2014 Session of the General Assembly was \$70,000,000.

<sup>3</sup>The total appropriated employer contribution rate for fiscal year ending June 30, 2015 is 0.00%. The estimated payroll for the 2014 Session of the General Assembly was \$3,620,000.

<sup>4</sup>The total appropriated employer contribution for fiscal year ending June 30, 2015 is \$6,039,274.

**TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM  
COST OF CERTAIN BENEFIT CHANGES AFFECTING  
FISCAL YEAR ENDING JUNE 30, 2016 BUDGET**

<u><b>Benefit Changes</b></u>	<u><b>Percentage Payroll<sup>1</sup></b></u>	<u><b>Appropriation 2015-16</b></u>	
		<u><b>General Fund<sup>2</sup></b></u>	<u><b>Highway Fund<sup>3</sup></b></u>
<u><b>Post-Retirement Increases</b></u>			
Each 1% increase to Beneficiaries as of July 1, 2014 payable beginning July 1, 2015 and prorated percentage to 2014-15 Beneficiaries	0.39% <sup>4</sup>	\$ 38,574,900	\$ 1,283,100
<u><b>Enhance Benefit Structure</b></u>			
Each 0.01% increase in the defined benefit formula accrual rate from current 1.82% with a 0.55% increase to all Beneficiaries	0.42% <sup>5</sup>	\$ 41,542,200	\$ 1,381,800

**FOOTNOTES:**

<sup>1</sup>Appropriated employer rate of contribution for fiscal year ending June 30, 2015 is 9.15% 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.

<sup>2</sup>Assumes General Fund payroll of covered members at \$9,891,000,000.

<sup>3</sup>Assumes Highway Fund payroll of covered members at \$329,000,000.

<sup>4</sup>The total amount to be funded over time is the increase in liability of \$378.9 million.

<sup>5</sup>The total amount to be funded over time is the increase in liability of \$424.2 million. The additional cost for future hires is 0.07% of pay.

**CONSOLIDATED JUDICIAL RETIREMENT SYSTEM  
COST OF CERTAIN BENEFIT CHANGES AFFECTING  
FISCAL YEAR ENDING JUNE 30, 2016 BUDGET**

	<b>Percentage Payroll<sup>1</sup></b>	<b>Appropriation 2015-16 <u>General Fund</u><sup>2</sup></b>
<b><u>Benefit Changes</u></b>		
<b><u>Post-Retirement Increases</u></b>		
Each 1% increase to Beneficiaries as of July 1, 2014 payable beginning July 1, 2015 and prorated percentage to 2014-15 Beneficiaries	0.64% <sup>3</sup>	\$448,000

**FOOTNOTES:**

<sup>1</sup>Appropriated employer rate of contribution for fiscal year ending June 30, 2015 is 27.21% 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.

<sup>2</sup>Assumes General Fund payroll of covered members at \$70,000,000.

<sup>3</sup>The total amount to be funded over time is the increase in liability of \$3.3 million.

**LEGISLATIVE RETIREMENT SYSTEM  
COST OF CERTAIN BENEFIT CHANGES AFFECTING  
FISCAL YEAR ENDING JUNE 30, 2016 BUDGET**

	<b>Percentage Payroll<sup>1</sup></b>	<b>Appropriation 2015-16 <u>General Fund</u><sup>2</sup></b>
<b><u>Benefit Changes</u></b>		
<b><u>Post-Retirement Increases</u></b>		
Each 1% increase to Beneficiaries as of July 1, 2014 payable beginning July 1, 2015 and prorated percentage to 2014-15 Beneficiaries	0.80% <sup>3</sup>	\$28,960

**FOOTNOTES:**

<sup>1</sup>Appropriated employer rate of contribution for fiscal year ending June 30, 2015 is 0.00% of covered members' payroll and the accrued liability liquidation period is 8 years. This means that the benefits described above will be fully funded after paying the respective percentage of payroll for approximately 8 years.

<sup>2</sup>Assumes General Fund payroll of covered members at \$3,620,000.

<sup>3</sup>The total amount to be funded over time is the increase in liability of \$0.2 million.