

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 8.69 percent is higher than the state budget of 8.33 percent for fiscal year ending 2013. Therefore the state budget allocated from the General Fund will need to increase \$35.1 million to meet the new ARC.

What is the reason for the difference? Investment losses during calendar year 2011 and contributions less than the ARC during the first half of calendar year 2011 were partially offset by salaries increasing less than assumed in the valuation. Because of this, the ARC as determined by the December 31, 2011 valuation for the 2013-2014 fiscal year is higher than the employer contribution rate that was set for the 2012-2013 fiscal year.

Three Policy Options for Consideration by the Board of Trustees

Option One – Recommend an Increase to Current Appropriation:

Recommend the legislature increase the appropriation to 8.69 percent. The additional appropriation from the General Fund would be \$35.1 million. The additional funds would cover the ARC.

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

Recommend the legislature increase the appropriation to 9.05 percent. The additional appropriation from the General Fund would be \$70.1 million in year one. The total amount to be funded over time is the increase in liability of \$346.2 million. The additional funds would cover the ARC and a 1% COLA. The COLA would produce, on average, a \$17 per month increase per retiree.

Option Three – Increase Multiplier for Active Employees:

Recommend the legislature increase the appropriation to 9.10 percent. The additional appropriation from the General Fund would be \$75.0 million in year one. The total amount to be funded over time is the increase in liability of \$ 406.5 million. The additional funds would cover the ARC and increase benefits for current active employees. The additional cost for future hires is 0.07 percent of pay. The accrual rate would increase from 1.82 percent to 1.83 percent with a corresponding 0.55 percent increase to all beneficiaries.

Prepared by Staff of the Retirement Systems Division,
Office of the State Treasurer
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North Carolina Retirement Systems SM

**SUMMARY OF ALTERNATIVES
FOR PRESENTATION TO THE 2013 GENERAL ASSEMBLY**

<u>Retirement System</u>	<u>Employer Contributions</u>	<u>Enhance Benefits</u>
Teachers' and State Employees'	Increase employer contribution rate ¹ by 0.36% for a cost in the first year to the General Fund of \$35,064,000 and to the Highway Fund of \$1,146,960	No undistributed gain available for benefit enhancements
Consolidated Judicial	Increase employer contribution rate ² by 1.46% for a cost in the first year to the General Fund of \$967,980	No undistributed gain available for benefit enhancements

FOOTNOTES:

¹The total appropriated employer contribution rate for fiscal year ending June 30, 2013 is 8.33%. The estimated payrolls for the 2012 Session of the General Assembly were \$9,740,000,000 for the General Fund and \$318,600,000 for the Highway Fund.

²The total appropriated employer contribution rate for fiscal year ending June 30, 2013 is 26.55%. The estimated payroll for the 2012 Session of the General Assembly was \$66,300,000.

**TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM
COST OF CERTAIN BENEFIT CHANGES AFFECTING
FISCAL YEAR ENDING JUNE 30, 2014 BUDGET**

<u>Benefit Changes</u>	<u>Percentage Payroll¹</u>	<u>Appropriation 2013-14</u>	
		<u>General Fund²</u>	<u>Highway Fund³</u>
<u>Post-Retirement Increases</u>			
Each 1% increase to Beneficiaries as of July 1, 2012 payable beginning July 1, 2013 and prorated percentage to 2012-13 Beneficiaries	0.36% ⁴	\$ 35,064,000	\$ 1,146,960
<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	\$ 39,934,000	\$ 1,306,260

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2013 is 8.33% 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 \$9,740,000,000.

³Assumes Highway Fund payroll of covered members at \$318,600,000.

⁴The total amount to be funded over time is the increase in liability of \$346.2 million.

⁵The total amount to be funded over time is the increase in liability of \$406.5 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, 2014 BUDGET**

	Percentage Payroll¹	Appropriation 2013-14 <u>General Fund</u>²
<u>Benefit Changes</u>		
<u>Post-Retirement Increases</u>		
Each 1% increase to Beneficiaries as of July 1, 2012 payable beginning July 1, 2013 and prorated percentage to 2012-13 Beneficiaries	0.62% ³	\$411,060

FOOTNOTES:

¹Appropriated employer rate of contribution for fiscal year ending June 30, 2013 is 26.55% 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 \$66,300,000.

³The total amount to be funded over time is the increase in liability of \$3.1 million.