Pension Reform Proposals in NC

Joint Legislative Education Oversight Committee

March 11, 2020

Teachers' and State Employees' Retirement System (TSERS)

- Covers employees of the State (including UNC), public community colleges, local education agencies, some charter schools
- Benefits are the same for all groups except:
  - Law enforcement officers have earlier retirement ages
  - UNC employees can choose Optional Retirement Program (ORP), which is similar to a 401(k)
- Defined benefit plan, aka traditional pension
  - Formula: 1.82% x Service x 4 Year Average Compensation
  - Unreduced retirement at earliest of:
    - 30 years of service
    - Age 60 with 25 years of service
    - Age 65 with 5 years of service

Recent Pension Legislation in NC

The following list includes only bills that would have a significant impact on the cost or attraction/retention incentives in TSERS

- 2010 SB 1450 and 2011 SB 687
  - Minimum unreduced retirement age of 60
  - Provision applied only to new hires
  - Neither bill heard in committee
- SL 2011-145 and SL 2012-142
  - Extended ORP eligibility to UNC Healthcare and non-faculty new hires at UNC
- SL 2011-232
  - Increased minimum service to vest (get a monthly benefit) from 5 years to 10 years
  - Applied to new hires on or after August 1, 2011
  - Reversed by SL 2014-88

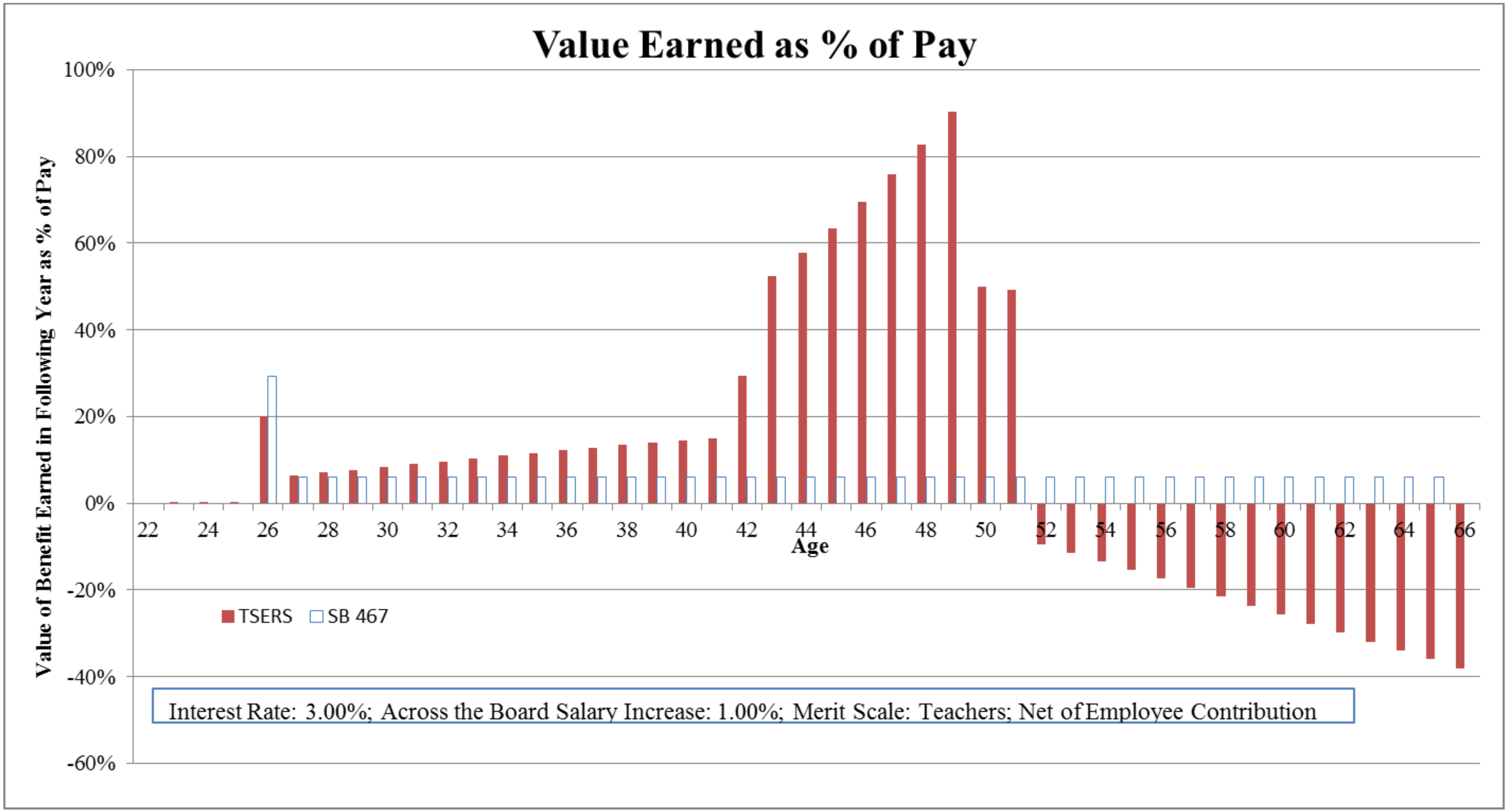
Recent Pension Legislation in NC

- 2016 HB 1134 and SB 887
  - Minimum unreduced retirement age of 50, 55, or 65 (depending on bill and amendment)
  - Provisions applied only to new hires
  - Neither reached a floor vote
- 2017 SB 467
  - 401(k) or similar plan for new hires
  - Designed to prepare participants for retirement even if they take no action
  - Still provided lifetime monthly income
  - Employees bore investment risk rather than taxpayers and users of government services (for example school children)
  - Very different attraction/retention incentives
  - Did not leave Senate Pensions committee

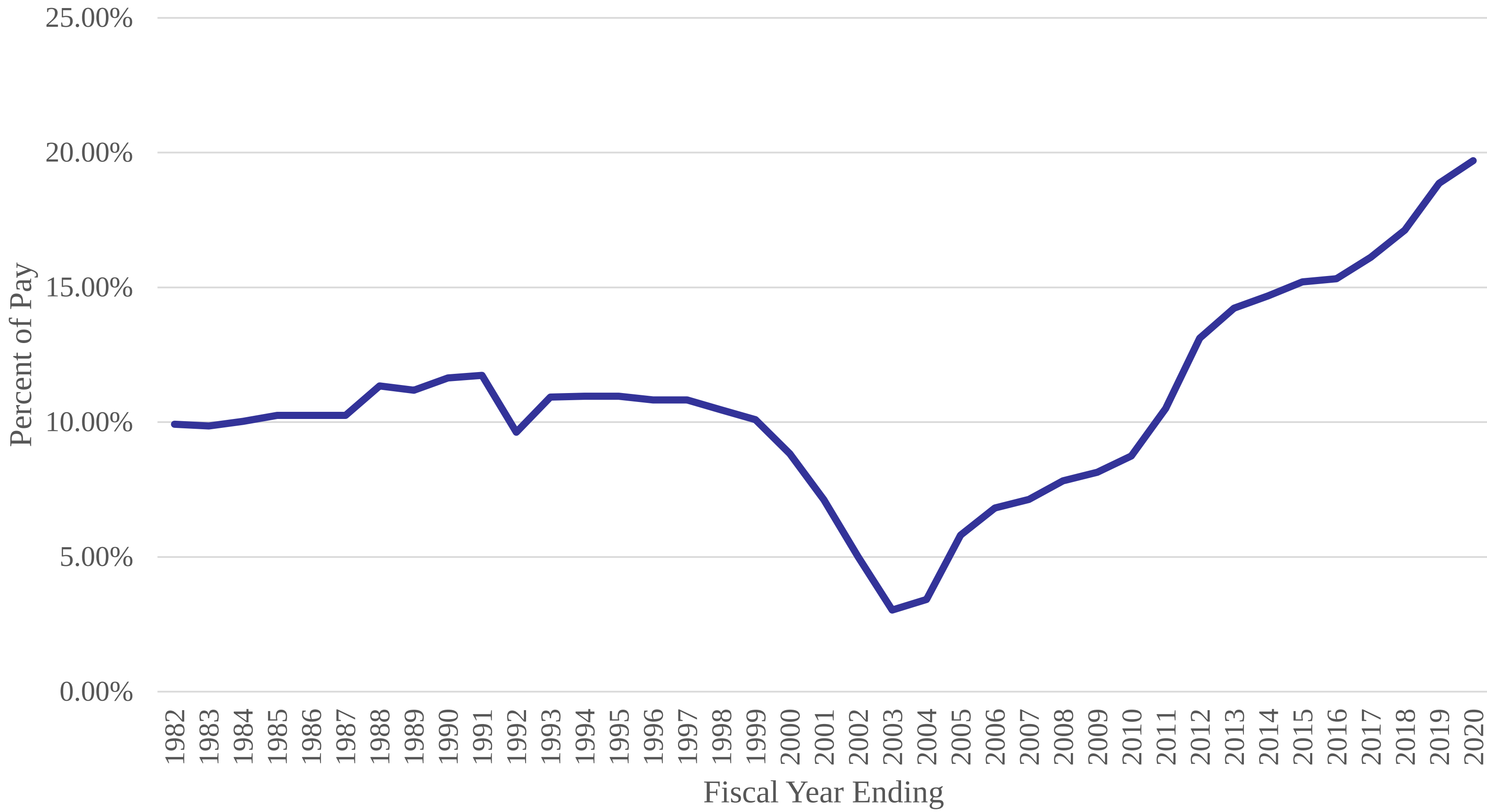
Attraction/Retention Impact of TSERS

- Little value in early years of career, making it harder to attract young teachers
- Often negative value after unreduced retirement, making it harder to retain experienced teachers
- Lots of value to mid-career teachers, contributing to low turnover in those years
- Lots of value to teachers hired at older ages, possibly helping recruit after career elsewhere

Attraction/Retention Impact of TSERS



History of Employer Contribution Rate

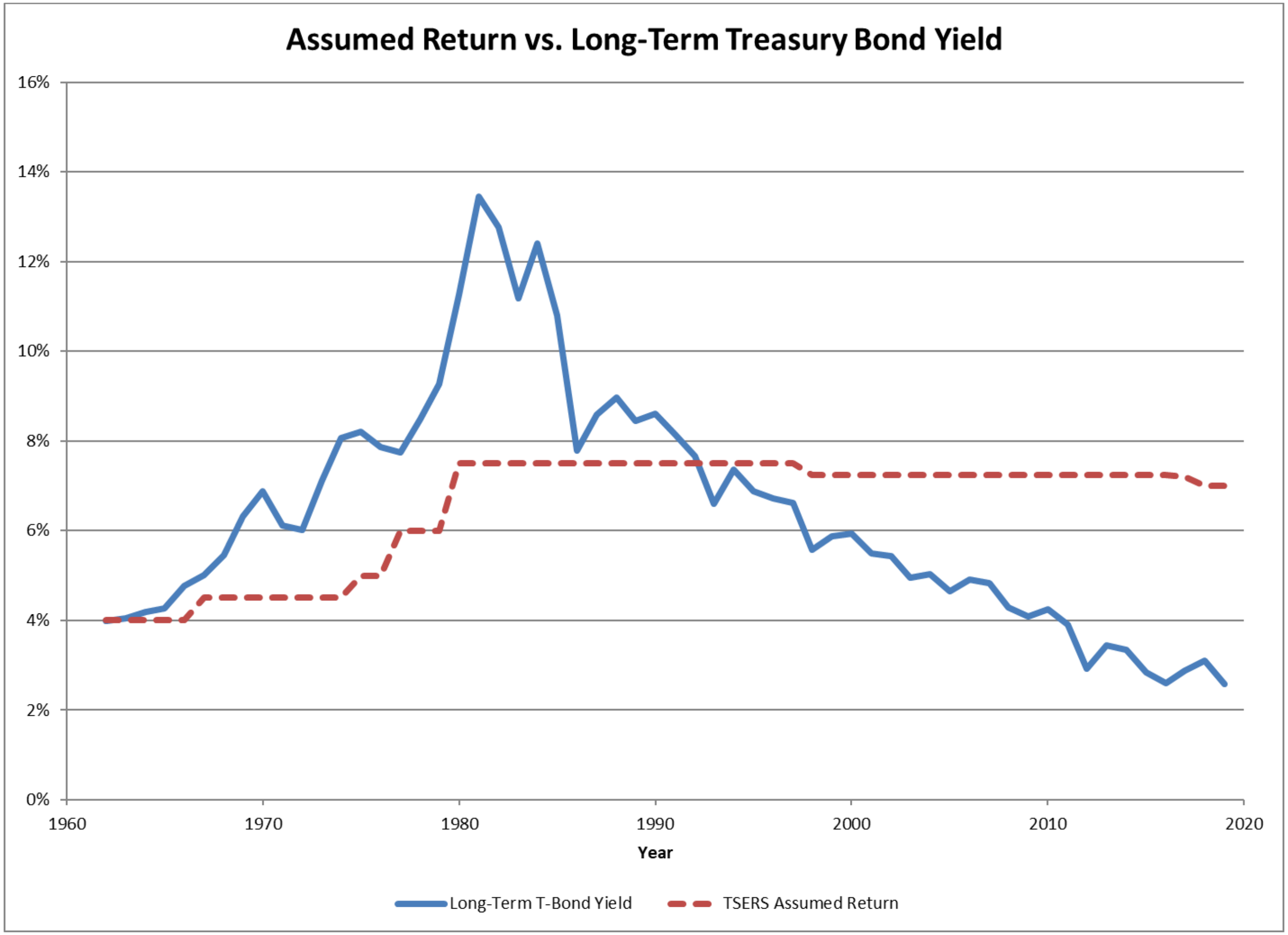


Includes TSERS, retiree medical, disability, and death benefits

Causes of Higher Contribution Rate

- Low interest rates and thus low asset returns
- Longer lifespans
- Benefit enhancements relative to the last time interest rates were below 4%

Low Interest Rates



Transition

- Case law (e.g. “Bailey” decision) indicates that pensions could not be changed for vested employees (those with 5 years of service)
- Changes could apply to only new hires or also to non-vested employees (less than 5 years of service)
- Changes might apply to vested employees if they are given a choice to keep current pension, although that comes at a cost

Design Considerations

- What benefit amount do retirees need/want?
- Who bears risks?
- Should benefits attract/retain certain groups?
- What role should employees have in making decisions about their retirement?
- What State/LEA cost is affordable and competitive?
- We recommend answering these questions first. Benefit design can then meet any combination of answers.

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