NORTH CAROLINA GENERAL ASSEMBLY

HOUSE SELECT COMMITTEE ON LEGACY COSTS FOR THE STATE'S OBLIGATIONS FOR PENSIONS, RETIREE HEALTH BENEFITS, STATE HEALTH PLAN, AND UNEMPLOYMENT BENEFITS

REPORT TO THE
HOUSE OF REPRESENTATIVES
2013 SESSION
of the
GENERAL ASSEMBLY

DECEMBER 2012

TRANSMITTAL LETTER

The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits was established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26 of the Rules of the House of Representatives of the 2011 General Assembly. The Committee respectfully submits the following report to the House of Representatives.

______________________________	______________________________
Speaker Pro Tem Dale R. Folwell	**Representative William C. McGee**
Co-Chair	**Co-Chair**

C O M M I T T E E   A U T H O R I Z A T I O N

Office of Speaker Thom Tillis
North Carolina House of Representatives
Raleigh, North Carolina 27601-1096

HOUSE SELECT COMMITTEE ON LEGACY COSTS FOR THE STATE'S OBLIGATIONS FOR PENSIONS, RETIREE HEALTH BENEFITS, STATE HEALTH PLAN, AND UNEMPLOYMENT BENEFITS.

TO THE HONORABLE MEMBERS OF THE
NORTH CAROLINA HOUSE OF REPRESENTATIVES

Section 1. The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits (hereinafter "Committee") is established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26 of the Rules of the House of Representatives of the 2011 General Assembly.

Section 2. The Committee consists of the 9 members listed below, appointed by the Speaker of the House of Representatives. Members serve at the pleasure of the Speaker of the House of Representatives. The Speaker of the House of Representatives may dissolve the Committee at any time.

Rep. Dale Folwell, Co-Chair
Rep. Bill McGee, Co-Chair
Rep. Jeff Collins
Rep. Tim Moffitt
Rep. George Cleveland
Rep. Linda Johnson
Rep. Darren Jackson
Rep. Garland Pierce
Rep. Susi Hamilton

Section 3. The Committee may study all of the following:

(1) The invisible burden being placed on the people of North Carolina by the State's pension obligations, retiree health benefit obligations, state health plan and unemployment benefits.

(2) The State's growing liabilities and the effect of those liabilities on the ability of the State to provide core functions of government now and in the future.

(3) Any other matter reasonably related to subdivisions (1) and (2) of this section, in the discretion of the Committee.

Section 4. The Committee shall meet upon the call of its Co-Chairs. A quorum of the Committee shall be a majority of its members.

Section 5. The Committee, while in the discharge of its official duties, may exercise all powers provided for under G.S. 120-19 and Article 5A of Chapter 120 of the General Statutes.

Section 6. Members of the Committee shall receive per diem, subsistence, and travel allowance as provided in G.S. 120-3.1.

Section 7. The expenses of the Committee including per diem, subsistence, travel allowances for Committee members, and contracts for professional or consultant services shall be paid upon the written approval of the Speaker of the House of Representatives pursuant to G.S. 120-32.02(c) and G.S. 120-35 from funds available to the House of Representatives for its operations.

Section 8. The Legislative Services Officer shall assign professional and clerical staff to assist the Committee in its work. The Director of Legislative Assistants of the House of Representatives shall assign clerical support staff to the Committee.

Section 9. The Committee may submit an interim report on the results of the study, including any proposed legislation, on or before May 1, 2012, by filing a copy of the report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee shall submit a final report on the results of its study, including any proposed legislation, to the members of the House of Representatives prior to the convening of the 2013 General Assembly by filing the final report with the Office of the Speaker of the House of Representatives, the House Principal Clerk, and the Legislative Library. The Committee terminates upon the convening of the 2013 General Assembly or upon the filing of its final report, whichever occurs first.

Effective this the 19th day of September, 2011.

Thom Tillis

Thom Tillis
Speaker

COMMITTEE MEMBERSHIP

Co-Chairs

Speaker Pro Tem Dale R. Folwell

Representative William "Bill" C. McGee

Legislative Members

Representative Jeff Collins

Representative Tim Moffitt

Representative George Cleveland

Representative Linda Johnson

Representative Darren Jackson

Representative Garland Pierce

Representative Susi Hamilton

Staff:

Theresa Matula, Research Division, NC General Assembly
Karen Cochrane Brown, Research Division, NC General Assembly

Marshall Barnes, Fiscal Research Division, NC General Assembly
Mark Bondo, Fiscal Research Division, NC General Assembly
Claire Hester, Fiscal Research Division, NC General Assembly
Stanley Moore, Fiscal Research Division, NC General Assembly
David Vanderweide, Fiscal Research Division, NC General Assembly
Kristin Walker, Fiscal Research Division, NC General Assembly

Clerk:

Jayne Nelson, NC General Assembly

COMMITTEE PROCEEDINGS

The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits was established by the Speaker of the House of Representatives pursuant to G.S. 120-19.6(a1) and Rule 26 of the Rules of the House of Representatives of the 2011 General Assembly. The Committee met four times from December 13, 2011 until December 11, 2012. The information below provides an overview of presentations received and issues discussed by the Committee. Detailed minutes and copies of handouts from each meeting are on file in the Legislative Library or at the following link:
http://www.ncleg.net/gascripts/DocumentSites/browseDocSite.asp?nID=178

December 13, 2011

The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits met on Tuesday, December 13, 2011, in Room 605 of the Legislative Office Building. Representative Folwell chaired the meeting. Agenda items for this meeting included the following: Pension Benefits, Retiree Medical Benefits Liabilities, State Debt, and Unemployment Debt to Federal Government. The information below provides an overview of each presentation.

Marshall Barnes, legislative fiscal analyst, presented information on pension benefits that provided the number of active and retired members in the Teachers' and State Employees' Retirement System (TSERS), the Local Governmental Employees' Retirement System (LGERS), the Consolidated Judicial Retirement System(CJRS), and the Legislative Retirement System (LRS) and Legislative Fund. Mr. Barnes also briefly mentioned the other benefit programs for which the State has oversight and the defined contribution plans available to groups of eligible employees. Mr. Barnes reminded Committee members of the TSERS defined benefit formula and the sources of funding. For the TSERS, during the year ending December 31, 2010, the employee contribution totaled $835.9 million (11.7% of total income); the State contribution totaled $583 million (8.2%); and the investment income totaled $5.7 billion (80%). Mr. Barnes also provided a graph depicting the TSERS contribution history, asset allocation, and funded ratios. Additionally, he provided funded ratio information for states within the United States.

David Vanderweide, legislative fiscal analyst, presented information on the long-term liabilities for retired employee health benefits. Mr. Vanderweide's presentation included an overview of benefits, the financial status of the Retiree Health Benefit Fund, the funding projections, and a comparison of the retiree medical benefits to other employers. As of December 31, 2010, the State had a total accrued OPEB (Other Post-Employment Benefit) liability of $33,495 million and an unfunded liability of $32,839 million. Mr. Vanderweide provided information and graphical analysis of funding projections and discussed the annual required contribution which is the amount calculated by an actuary under government accounting standards (GASB 43/45) as the sum of the normal cost and the amortization of the unfunded liability. Mr. Vanderweide provided a comparison of North Carolina to other states and to private employers. He pointed out that few states and few companies have set aside significant assets to pay future benefits. Compared to other states, North Carolina's per capita unfunded liability is the 9th highest in the United States.

Mark Bondo, legislative fiscal analyst, provided information on types of state debt, debt management, debt service and the current deficiencies in State buildings. Mr. Bondo reminded the Committee that the types of debt include: general obligation debt, two thirds or legislative bonds, revenue bonds, special obligation bonds, and special indebtedness. He gave an overview of the membership of the Debt Affordability Advisory Committee and their 2011 recommendations. Mr. Bondo highlighted the State's credit rating, payout ratio, limited variable rate debt and debt level. He provided that the State has $4.8 billion in General Obligation Bonds, $2.1 billion in Special Indebtedness and GAP Funding includes Highway Fund support of the NC Turnpike projects, $64 million in Fiscal Year (FY) 2011-12 and $81.5 million in FY 2012-13. Mr. Bondo presented a graphical depiction of outstanding debt history for the Special Fund, the Highway Fund and the General Fund. He provided that the General Fund Debt Service for the current Biennium is $699,957,188 for FY 2011-12 and $759,984,974 for FY 2012-13 and he provided a graphical representation of debt service as a percentage of General Fund Revenues. Mr. Bondo presented a graph illustrating the impact of interest rate changes and discussed recent actions by the General Assembly. Finally, he informed the Committee that facilities and condition assessment program has identified $2.3 billion in deficiencies in General Fund supported State agency buildings, and $2.1 billion in deficiencies in General Fund supported university buildings.

The final presentation on the agenda was made by Claire Hester, legislative fiscal analyst. Ms. Hester presented an overview of unemployment benefits and an overview of debt associated with these benefits. She reminded the Committee of eligibility requirements for unemployment benefits and how benefits and administrative costs are funded. Ms. Hester explained the differences in the State Unemployment Tax Act (SUTA) and the Federal Unemployment Tax Act (FUTA). She also provided information on regular unemployment benefits, extended benefits, and emergency unemployment compensation. Ms. Hester provided that as of October 2011, the amount borrowed was $2.6 billion and the interest rate for 2011 is 4.0869%, but is expected to change in 2012. The State made an interest payment of approximately $78 million to the federal government in September 2011. Ms. Hester provided a debt timeline and graphs depicting the NC Unemployment Insurance Trust Fund Account History and Fund Balances. Ms. Hester informed the committee of the impact if the principal is not paid off on November 20, 2011 and the cost to employers. She reported that 30 states have borrowed over $40 billion and that NC currently ranks 5th in money borrowed.

October 16, 2012

The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits met on Tuesday, October 16, 2012, in Room 605 of the Legislative Office Building. Representative McGee chaired the meeting. Agenda items for this meeting included the following: Economic Expectations (2-5 years), Long-term Liabilities for Retired Employee Health Benefits, Pension Benefits, Review of Unemployment Debt Owed to the Federal Government, and the State Debt. The information below provides an overview of each presentation.

Barry Boardman, legislative fiscal analyst, provided the Committee with information on State tax revenues and economic forecasts for the United States and North Carolina. Dr. Boardman provided a graph depicting the following NC tax collections: personal income, sales & use, corporate income, and total tax collections. The 15-year average growth of baseline tax collections is 4.1%. Fiscal Year (FY) 2011-12 was up 5.4% and FY 2012-13 is forecasted to grow 4.4%. Dr. Boardman presented a graphical depiction of the NC Gross State Product, the US Gross Domestic Product and the NC 20-year average. He provided that North Carolina equals or surpasses the long-run trend for 2013-15. Dr. Boardman presented a graph showing existing home sales in NC compared to the 20-year average US Mortgage rate, and the 30-year mortgage rate. He pointed out that through 2018, the number of existing home sales are expected to run 10-15% below the peak level experienced in 2006. According to his graph of NC and US retail sales, retail sales both for NC and the US saw a rebound in 2011 and are anticipated to level off through 2017. Dr. Boardman displayed for the committee a graph depicting the NC Personal Income, NC Wage & Salary Income, and US Personal Income. The NC Wage & Salary growth is expected to accelerate in 2013 above average growth of 4.8%. Finally, Dr. Boardman provided a comparison of the NC Unemployment Rate, NC Non-Ag Employment, and the NC 20-year average rate.

David Vanderweide, legislative fiscal analyst, presented information on the long-term liabilities for retired employee health benefits. Similar to the 2011 presentation, Mr. Vanderweide's presentation included an overview of benefits, the financial status, the funding projections, and a comparison to other employers. As of December 31, 2011, the total accrued liability was $30,339 million and there was an unfunded liability of $29,610 million. Mr. Vanderweide provided information and graphical analysis of the unfunded accrued liability which is expected to grow over time and he provided funding projections. Mr. Vanderweide's graphical representation of funding projections provided the normal cost, the unfunded accrued liability and the annual required contribution.

Stanley Moore, legislative fiscal analyst, presented information on pension benefits that provided the number of active and retired members in the Teachers' and State Employees' Retirement System (TSERS), the Local Governmental Employees' Retirement System (LGERS), the Consolidated Judicial Retirement System(CJRS), and the Legislative Retirement System (LRS) and Legislative Fund. Mr. Moore also briefly mentioned the other benefit programs for which the State has oversight and the defined contribution plans available to groups of eligible employees. Similar to the presentation in 2011, the Committee members were reminded of the TSERS defined benefit formula and the sources of funding. For the TSERS, as of the year ending December 31, 2011, the employee contribution totaled $830.1 million (29%); the State contribution totaled $837.8 million (30%); and the investment income totaled $1.16 billion (41%). Mr. Moore also provided a graph depicting the TSERS contribution history, asset allocation, and funded ratio history. The TSERS asset allocation slide included a chart depicting a breakdown of the current asset allocation percentage versus the percentage required by policy. Mr. Moore provided funded ratio information for states within the United States which shows North Carolina is among less than 20 states with 80% or more of pension liabilities funded. North Carolina's pension liabilities were funded at 96% at the time the chart was prepared. Mr. Moore pointed out that each 1% drop in the funded ratio equates to a .5% increase in the employer contribution rate. Additionally, each .5% increase in the employer contribution rate would cost the General Fund approximately $50 million annually.

Kristin Walker, legislative fiscal analyst, presented information on NC's unemployment insurance debt. She reminded Committee members of the unemployment insurance basics and provided information on the State Unemployment Tax Act (SUTA), the State Reserve Tax, and Federal Unemployment Tax Act (FUTA). The Unemployment Debt Basics provided by Ms. Walker indicated that as of October 13, 2012, the amount borrowed was $2.5 Billion at an interest rate of 2.94%, which changes annually. The interest payment in September 2011 was approximately $78 million. Upcoming interest payments are anticipated to equal, $83.9 million in September 2012, and roughly $85 million in September 2013. Ms. Walker provided information on the debt timeline and the impact of the debt. Currently 20 states have outstanding debts of over $27 billion and North Carolina currently ranks third in the amount of money borrowed, behind California and New York. Ms. Walker provided that some states have issued bonds to pay off debt and other states have had their FUTA rate go up and have begun paying down the debt that way.

Mark Bondo, legislative fiscal analyst, provided information on the benefits and drawbacks of debt finance, types of state debt, debt management, outstanding debt and debt history, debt service, UNC outstanding indebtedness, and the current deficiencies in State buildings. Mr. Bondo discussed the benefits and drawbacks of debt finance and reminded the Committee of the types of debt. He gave an overview of the membership of the Debt Affordability Advisory Committee and their 2012 recommendations. Mr. Bondo highlighted the State's credit rating, payout ratio, limited variable rate debt and debt level. He provided that the State has $4.47 billion in General Obligation Bonds, $2.38 billion in Special Indebtedness, and GAP Funding of $1.05 Billion. Currently there is $3.8 Billion in Special Indebtedness for the following projects: corrections, psychiatric hospitals, university, parks and land, repair and renovation, and other. Mr. Bondo presented a graphical depiction of outstanding debt history for the Special Fund, the Highway Fund and the General Fund. He provided that the General Fund Debt Service for the current Biennium was $695,081,502 for FY 2011-12 and $708,696,719 for FY 2012-13 and he provided a graphical representation of debt service as a percentage of General Fund Revenues. Mr. Bondo presented a graph illustrating the impact of interest rate changes and discussed debt for the University of North Carolina. Outstanding Indebtedness for UNC in FY 2012 totals $3,527,913,032. Mr. Bondo provided information on recent actions by the General Assembly informed the Committee that the facilities and condition assessment program has identified $2.3 billion in deficiencies in General Fund supported State agency buildings, and $2.1 billion in deficiencies in General Fund supported university buildings. He further provided that $89.2 million was appropriated for Repair and Renovations for the current Biennium (FY 2011-13).

November 13, 2012

The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits met on Tuesday, November 13, 2012, in Room 544 of the Legislative Office Building. Representative McGee chaired the meeting. Agenda items for this meeting included the following: Retirement Systems Earnings Outlook and Asset Allocation Expansion of Optional Retirement Program for University System, State Health Plan: Younger v. Older Enrollee Trend and Appropriation Implications, and Employment Security: Plans for Recovering Fraudulent Payments and Collection of Uncollected Premiums. The information below provides an overview of each presentation.

Steve Toole, Director, and Sam Watts, Policy Development, NC Retirement System Division, Department of State Treasurer, and Larry Langer, Principal Consulting Actuary, Buck Consultants, presented information on the State Retirement Valuations/Annual Required Contributions. After providing some introductory information relating to the NC Retirement Systems from the December 31, 2011 valuation, Mr. Toole and Mr. Watts discussed the State's accounting practices. They noted that North Carolina takes a more conservative approach to funding the plan than many other states. Currently, North Carolina assumes a 7.25 percent rate of return, the fourth lowest discount rate in the country for a statewide plan. There are three annual sources of funding: employee contributions, investment income, and employer contributions which are appropriated by the General Assembly. The Retirement system actuary determines the Annual Required Contribution (ARC) which is the percentage of state payroll state agencies and school systems pay for each employee to participate in the retirement system. The rate appropriated in 2012 was 8.33 percent. The preliminary estimate from the valuation for 2013 is 8.89 percent.

Next, Mr. Langer discussed changes in accounting standards that have been approved by the Government Accounting Standards Board (GASB). The new standard separates accounting and financial reporting from actuarial funding policy. Pension plans are required to meet the new standards for financial reporting for fiscal years beginning after June 15, 2013. Employers are required to meet the new accounting standards for fiscal years beginning after June 15, 2014. Finally, Mr. Langer reviewed the estimated impact for North Carolina Retirement Systems from the GASB changes.

David Vanderweide, legislative fiscal analyst, presented a graph of the changing age distribution in TSERS over the last 30 years as a proxy for the age distribution of members of the State Health Plan. He commented that the graph shows a clear and significant aging trend over that period. He also showed a graph of the average claims cost by age in the State Health Plan. The costs increase significantly with age until age 65 (eligibility for Medicare) and then drop significantly when Medicare becomes the primary coverage. He noted that aging over the last 30 years has increased average claims by a small amount as the peak of the age distribution has moved from around age 30 to around age 60, but that further aging in the next 10 or 20 years may actually decrease costs as the peak of the distribution becomes eligible for Medicare.

Dempsey Benton, Assistant Secretary for Employment Security, Department of Commerce, updated the Committee on the Division of Employment Security's plans to recover fraudulent payments and to collect uncollected premiums. Mr. Benton began by reviewing for the Committee the types of employers paying UI taxes and noted that the maximum tax paid per employer is 6.84 percent. He then discussed the Division's tax collection efforts and benefit charges by industry as a percentage of total charges in 2011. For the fiscal year 2011-2012, Mr. Benton noted, there were 5,561 cases of overpayment fraud, totaling $16,825,155.

$7,033,548.88 has been recovered. In the same period, there were 35,128 cases of non-fraud overpayment, totaling $37,998,302.50. Mr. Benton then discussed the Division's efforts at fraud prevention and overpayment recovery. The Division has upgraded staff capacity, adding six new fraud investigators, with plans to more additions. The Division is preparing to implement the Treasury Offset Program (TOP), which allows the state to recover overpayment through the IRS tax refund program. It is estimated that the new TOP will yield up to $15 million in additional collections. The Division is also increasing its use of technology by using various databases, such as the Social Security Administration and North Carolina vital records, in an effort to prevent the release of improper unemployment payments. They also perform cross matches with the National Directory of New Hires, and the Division of Corrections. The Office of State Controller contracted with SAS Institute to develop the fraud, waste and improper payment detection system and host the technical environment. The system will enhance the UI Benefit Integrity program. The system is known as the North Carolina Financial Accountability and Compliance Technology System (NC FACTS). Mr. Benton noted that the Division continues to assure recipients are actively seeking work. They are also enhancing communications with employers and improving communications with claimants. Finally, the Division is working on several staffing and management issues, including improving initial claims adjudication by adding staff and upgrading internal procedures, and improving business processes by replacing the UI Benefits Information System and upgrading operating practices.

December 11, 2012

The Committee was presented a draft report to the House of Representatives, 2013 Session of the North Carolina General Assembly.

RECOMMENDATIONS

PENSIONS

Background: During the December 2011 and October 2012 meetings of the House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits, legislative staff presented overviews of the State's retirement systems, including a history of employer contribution rates to the State Retirement System (see Table 1), the TSERS defined benefit formula, and information on defined contribution plans available to eligible employees.

Table 1: State Contribution Rates (as % of pay)
FY 1995-96 to FY2012-13

	State Retirement System	Optional Retirement System
1995-1996	8.15%	6.66%
1996-1997	8.15%	6.66%
1997-1998	7.78%	6.84%
1998-1999	7.42%	6.84%
1999-2000	8.15%	6.84%
2000-2001	5.33%	6.84%
2001-2002	1.97%	6.84%
2002-2003	0.00%	6.84%
2003-2004	0.22%	6.84%
2004-2005	2.17%	6.84%
2005-2006	2.34%	6.84%
2006-2007	2.66%	6.84%
2007-2008	3.05%	6.84%
2008-2009	3.36%	6.84%
2009-2010	3.57%	6.84%
2010-2011	4.93%	6.84%
2011-2012	7.44%	6.84%
2012-2013	8.33%	6.84%

Members of the committee asked several questions related to average final compensation and how North Carolina's pension system compares to other states. Consequently, at the request of the committee chairs, Appendix One of this report includes information on pensions systems in the states surrounding North Carolina.

During the November 2012 meeting, the committee heard from Sam Watts and Steve Toole of the NC Retirement System Division, Office of State Treasurer, and Larry Langer of Buck

Consultants on the retirement system's accounting practices and the valuation of the State retirement systems.

Recommendations: The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits recommends that the State:

- Consider the following design options for its retirement systems:
  - Continue the current defined benefit retirement system;
  - Develop options for a hybrid retirement plan that would include defined benefit and defined contribution components; and
  - Consider implementing a defined contribution plan for new hires while continuing the defined benefit plan for present members.

- Change the Average Final Compensation calculation for its retirement systems by:
  1. Increasing the AFC period from four years to 10 years for members employed on or after August 1, 2011; and
  2. Limiting year over year salary increases used in the retirement calculation for all current retirement system members to no more than 15 percent annually with a total increase over the average final compensation period not to exceed 40 percent for those hired prior to August 1, 2011.

  However, the Committee recommends that members within their average final compensation years should not be affected by this change, making the new policy effective for retirement on or after January 1, 2018 at the earliest.

- Increase the vesting period for the Legislative Retirement System and the Optional Retirement Program from five years to 10 years.

- Require the State Treasurer to provide greater transparency regarding the allocation and valuation of alternative investments.

RETIREE HEALTH BENEFITS

Background: During the December 2011 and October 2012 meetings of the House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits, David Vanderweide presented on North Carolina's retiree medical benefits. As of December 31, 2011, the total accrued liability for OPEB (Other Post-Employment Benefits) was $30,339 million with an unfunded liability of $29,610 million. At the request of the Committee chairs, Appendix Two of this report includes information on retiree health benefits in states surrounding North Carolina.

Recommendations: The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits recommends that the State:

- Offer a Medicare Advantage plan to State retirees effective January 1, 2014.

- Continue to evaluate cost-saving opportunities, such as encouraging non-Medicare eligible retirees to voluntarily transition from State Health Plan coverage to private coverage provided on the healthcare exchange.
- Encourage TRICARE-eligible State employees and retirees to utilize TRICARE coverage in lieu of State Health Plan coverage.

STATE HEALTH PLAN

Background: During the November 2012 Committee meeting, David Vanderweide presented information on the aging of the State Health Plan membership and the impact of age on healthcare costs. Employer contributions have increased over time due to factors including rising medical costs, increased utilization, and an aging membership. Table 2 provides employer contributions since FY 1995-96.

Table 2: State Health Plan Maximum Annual Employer Contribution
FY 1995-96 to FY2012-13

	Non-Medicare-Eligible	Medicare-Eligible
1995-1996	$ 1,736	$ 1,321
1996-1997	1,736	1,321
1997-1998	1,736	1,321
1998-1999	1,736	1,321
1999-2000	2,126	1,619
2000-2001	2,256	1,718
2001-2002	2,764	2,104
2002-2003	2,933	2,233
2003-2004	3,307	2,518
2004-2005	3,432	2,612
2005-2006	3,748	2,853
2006-2007	3,854	2,934
2007-2008	4,183 (Indemnity Plan)	3,185 (Indemnity Plan)
2008-2009	4,157	3,165
2009-2010	4,527	3,447
2010-2011	4,929	3,753
2011-2012	4,931	3,832
2012-2013	5,192	4,035

At the request of the Committee chairs, information on how North Carolina's health plan compares to other states is provided in Appendix Three.

Recommendations: The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits recommends that the North Carolina General Assembly:

- Encourage the State Health Plan to convert to a calendar plan year with the first full year starting on January 1, 2014.
- Continue to assess whether the State should transition health coverage for active State employees from the State Health plan to private coverage provided on the healthcare exchange.
- Continue to assess whether the State should transition health coverage for dependents of State employees from the State Health plan to private coverage provided on the healthcare exchange.

EMPLOYEE BENEFITS STATEMENT

Background: North Carolina employees receive many benefits other than salaries that may have financial value. S.L. 2009-63 (See Appendix Four) required the Office of State Personnel, Department of Public Instruction, North Carolina Community Colleges, and the University of North Carolina to study the development of an employee benefits statement that reflects total compensation including the current value of employee benefits provided to State, Public School, and Community College employees. The study was completed in FY 2009-10. Yet, while the State has several tools that allow employees to review, project, and value portions of their benefits, no comprehensive personalized benefit statement that reflects total compensation has been developed.

Recommendation: The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits recommends that the North Carolina General Assembly:

- Require the Office of State Personnel, Department of Public Instruction, North Carolina Community Colleges, and the University of North Carolina to implement a personalized employee benefits statement that provides an employee's total compensation, including all cash income, and the value of all employee benefits.

UNEMPLOYMENT BENEFITS

Background: North Carolina's nearly $2.5 billion debt to the federal government related to unemployment insurance is hurting North Carolina employers and presents a financial challenge for the State. Because of this debt, the Federal Unemployment Tax credit reduction will decrease by 0.3 percent annually until the debt is paid.

Recommendation: The House Select Committee on Legacy Costs for the State's Obligations for Pensions, Retiree Health Benefits, State Health Plan, and Unemployment Benefits recommends that the North Carolina General Assembly:

- Develop and implement policies to avoid accruing unemployment debt in the future.

APPENDIX ONE[1]

PENSION SYSTEMS: A COMPARISON

The following pages include four tables with retirement age, vesting, and final salary calculation information by state. This information is taken directly from Wisconsin Legislative Commission's 2010 Comparative Study of Major Public Employee Retirement Systems" published in December 2011.

The final table is a review of major pension changes that states enacted in 2011 and 2012. This table was compiled by the Fiscal Research Division.

- Table 1: Normal and Early Retirement Requirements
- Table 2: Contribution and Vesting Requirements
- Table 3: Final Average Salary Periods-Formulas-Limitations
- Table 4: Post-Retirement Increases and State Tax Provisions
- Table 5: Major Pension Reforms 2011-2012

[1] Wisconsin Legislative Council. "2010 Comparative Study of Major Public Employee Retirement Systems." December 2011.

Table 1: Normal and Early Retirement Requirements

	State	Fund Name	Coverage*	Normal Retirement (Age/Years)	Early Retirement (Age/Years)	Annual Reduction for Early Retirement
1	Alabama	ERS	S, L	60/10; any/25	None	
2	Alabama	TRS	T	60/10; any/25	None	
3	Alaska	PERS	S, L	59-1/2*	None	
4	Alaska	TRS	T	59-1/2*	None	
5	Arizona	SRS	S, L, T	65; 62/10; R80	50/5	Table
6	Arkansas	PERS	S, L	65/5; any/28	55/5; any/25	6% a yr
7	Arkansas	TRS	T	60/5; any/28	Any/25	Lesser of 5% for each yr < 28 yrs service or for each yr prior to age 60
8	California	PERS	S, L	55/10	50/5	Multiplier varies
9	California	TRS	T	60/5	55/5; 50/30	3% to 6% a yr
10	Colorado	PERA	S, L, T	65/5; 50/30; 55/R85; any/35	50/25; 55/20; 60/5	Table
11	Connecticut	SERS	S	62/10; 60/25; 70/5	55/10	2.5% a yr
12	Connecticut	TRS	T	60/20; any/35	Any/25; 55/20; 60/10	3% a yr
13	Delaware	SEPP	S, T	62/5; 60/15; any/30	55/15; any/25	2.4% a yr
14	Florida	FRS	S, L, T	65/8; any/33	Any/8	5% a yr
15	Georgia	ERS	S	65/10; any/30	60/10; any/25	7% a yr
16	Georgia	TRS	T	60/10; any/30	Any/25	7% a yr
17	Hawaii	ERS	S, L, T	62/5; 55/30	55/20	5% a yr
18	Idaho	PERS	S, L, T	65/5; R90	55/5	3% a yr for 1st 5 yrs; 5.75% a yr thereafter
19	Illinois	SRS	S	60/8; R85	55/25	6% a yr
20	Illinois	TRS	T	62/5; 60/10; R85	55/20	6% a yr
21	Illinois	MRF	L	60/8; 55/35	55/8	3% a yr
22	Indiana	PERF	S, L	65/10; 60/15; 55/R85	50/15	Table
23	Indiana	TRF	T	65/10; 60/15; 55/R85	50/15	5% a yr to 60; 1.2% a yr age 60 to 65
24	Iowa	PERS	S, L, T	65; 62/20; 55/R88	55/4	3% a yr
25	Kansas	PERS	S, L, T	65/1; 65/5; 62/10; 60/30; R85	55/10	2.4%/7.2% a yr; 35% at age 60; 57.5% at age 55
26	Kentucky	KERS	S	65/5; R87	60/10	5%/4% a yr
27	Kentucky	CERS	L	65/5; R87	60/10	5%/4% a yr
28	Kentucky	TRS	T	60/5; any/27	55/10	5% a yr
29	Louisiana	SERS	S	60/10	Any/20	Table
30	Louisiana	TRSL	T	60/5; 55/25; any/30	Any/20	Multiplier varies
31	Maine	PERS	S, L, T	62/5	Any/25	6% a yr
32	Maryland	SRPS	S, L, T	62/5; 63/4; 64/3; 65/2; 60/5; any/30	55/15	6% a yr; max 42%
33	Massachusetts	SERS	S, L	55/10; any/20	None	
34	Massachusetts	TRS	T	55/10; any/20	None	
35	Michigan	SERS	S	60/10; 55/30	55/15	6% a yr
36	Michigan	MERS	L	Varies by plan	Varies by plan	Varies by plan
37	Michigan	PSERS	T	60/5; 60/10; 55/30; any/30	55/15	6% a yr
38	Minnesota	MSRS	S	65/3; any/30; R90	55/3	3% a yr

39	Minnesota	PERA	L	65/3; any/30; R90	55/3	3% a yr
40	Minnesota	TRA	T	60; any/30	55	3% a yr
41	Mississippi	PERA	S, L, T	60/8; any/25	None	
42	Missouri	SERS	S	67/10; 55/R90	62/10	6% a yr
43	Missouri	LAGERS	L	60/5; R80 option	55/5	6% a yr
44	Missouri	PSRS	T	60/5; R80; any/30	55/5; any/25	3.6% a yr
45	Montana	PERS	S, L	65/any; 60/5; any/30	50/5; any/25	6% a yr
46	Montana	TRS	T	60/5; any/25	50/5	6%; 3.6% a yr
47	Nebraska	SERS	S	55		Cash balance
48	Nebraska	CERS	L	55		Cash balance
49	Nebraska	SPP	T	65; 55/R85	60/5; any/35	3% a yr
50	Nevada	PERS	S, L, T	65/5; 62/10; any/30	Any/5	6% a yr
51	New Hampshire	NHRS	S, L, T	60/any	50/10; R70/20	1.5%; 3%; 4%; 6.67% a yr
52	New Jersey	PERS	S, L	65/any	Any/30	3% a yr
53	New Jersey	PAF	T	65/any	Any/30	3% a yr
54	New Mexico	PERA	S, L	67/5 to R80; any/30	None	
55	New Mexico	ERA	T	67/5; any/30; R80	R75	2.4% a yr
56	New York	ERS	S, L	62/10	55/10	Table
57	New York	TRS	T	62/10; 57/30	55/10	Table
58	North Carolina	TSERS	S, T	65/5; 60/25; any/30	60/5; 50/20	3% a yr
59	North Carolina	LGERS	L	65/5; 60/25; any/30	60/5; 50/20	3% a yr
60	North Dakota	PERS	S, L	65/any; R85	55/3	6% a yr
61	North Dakota	TRF	T	65/5; R90	55/5	6% a yr
62	Ohio	PERS	S, L	60/5; any/30	55/25	3% a yr
63	Ohio	STRS	T	65; any/30	60/5; 55/25	3% a yr
64	Oklahoma	PERS	S, L	65; R90	55/10	Table
65	Oklahoma	TRS	T	62/5; R90	55/5; any 30	Table
66	Oregon	PERS	S, L, T	65/any; 58/30	55/5	Full actuarial reduction
67	Pennsylvania	SERS	S	65/3; R92	Any/10	3% to 6% per yr average
68	Pennsylvania	PSERS	T	62; 60/30; any/35; R92	55/25	3% a yr
69	Rhode Island	ERS	S, T	65/10; any/29	62/20	Table
70	South Carolina	SCRS	S, L, T	65/5; any/28	55/25; 60/5	5% a yr for each yr under age 65; 4% a yr for each yr under age 28
71	South Dakota	SRS	S, L, T	65/3; 55/R85	55/3	3% a yr
72	Tennessee	CRS	S, L, T	60/5; any/30	55/25	4.8% a yr
73	Texas	ERS	S	65/10; R80	55/10; 50/12	5% a yr
74	Texas	TRS	T	65/5; 60/20	55/5; any/30	5% a yr
75	Texas	MRS	L	60/5; any/20	None	
76	Utah	SRS	S, L, T	65/4; any/30	Any/25; 60/20; 62/10	3% a yr; full actuarial reduction for each yr before age 60
77	Vermont	SRS	S	65/any; R87	55/5	Table
78	Vermont	TRS	T	62/any; any/30	55/5	6% a yr
79	Virginia	SRS	S, L, T	65/5; 50/30	50/10; 55/5	6%; 4.8% a yr
80	Washington	PERS	S, L	65/10	55/10	3% a yr or table
81	Washington	TRS	T	65/10	55/10	3% a yr or table
82	West Virginia	PERS	S, L	60/5; 55/R80	55/20	Full actuarial reduction
83	West Virginia	TRS	T	60/5; 55/30; any/35	55/30	Full actuarial reduction
84	Wyoming	WRS	S, L, T	60/4; R85	50/4; any/25	5% a yr
85	Milwaukee	City	L	60/any; 55/30	55/15	Table
86	Milwaukee	County	L	60/5; 55/30	55/15	5% a yr
87	Wisconsin	WRS	S, L, T	65/any; 30/R87	55	Varies by amt of service

Coverage: S = State; L = Local; T = Teachers; x/y = Age/Service

*Defined contribution plan: taxes and penalties may apply if contributions are withdrawn prior to age 59-1/2 *h*

Table 2: Contribution and Vesting Requrements

	State	Fund Name	Social Security	Employee Contribution	Employer Normal Cost or Statutory Contribution	Vesting Period
1	Alabama	ERS	Yes	5.00%	4.99%	10 years
2	Alabama	TRS	Yes	5.00%	6.42%	10 years
3	Alaska	PERS	No	8.00%	5.00%	5 years
4	Alaska	TRS	No	8.00%	7.00%	5 years
5	Arizona	SRS	Yes	11.39%	10.10%	Immediate
6	Arkansas	PERS	Yes	5.00%	13.47%	5 years
7	Arkansas	TRS	Yes	6.00%	14.00%	5 years
8	California	PERS	Yes	5.00%	10.73%	5 years
9	California	TRS	No	8.00%	8.25%	5 years
10	Colorado	PERA	No	8.00%	10.15%	5 years
11	Connecticut	SERS	Yes	2.00%	9.00%	5 years
12	Connecticut	TRS	No	6.00%	10.11%	10 years
13	Delaware	SEPP	Yes	3.00% above $6,000	6.85%	5 years
14	Florida	FRS	Yes	3.00%	4.91%	6 years
15	Georgia	ERS	Yes	1.25%	6.32%	10 years
16	Georgia	TRS	Yes	5.53%	5.30%	10 years
17	Hawaii	ERS	Yes	6.00%	6.54%	5 years
18	Idaho	PERS	Yes	6.23%	10.39%	5 years
19	Illinois	SRS	Yes	4.00%	32.25%	8 years
20	Illinois	TRS	No	9.40%	25.49%	5 years
21	Illinois	MRF	Yes	4.50%	12.42%	8 years
22	Indiana	PERF	Yes	3.00%	8.60%	10 years
23	Indiana	TRF	Yes	3.00%	5.85%	10 years
24	Iowa	PERS	Yes	5.38%	8.33%	4 years
25	Kansas	PERS	Yes	4.00/6.00%	7.72%	5 years
26	Kentucky	KERS	Yes	5.00%	11.61%	5 years
27	Kentucky	CRS	Yes	5.00%	16.16%	5 years
28	Kentucky	TRS	No	9.11%	17.21%	5 years
29	Louisiana	SERS	No	8.00%	6.78%	5 years
30	Louisiana	TRSL	No	8.00%	15.50%	5 years
31	Maine	SRS	No	7.65%	14.35-53.32%	5 or 10 years
32	Maryland	SRS	Yes	2.00%	6.47%	5 years
33	Massachusetts	SERS	No	9.00%	3.16%	10 years
34	Massachusetts	TRS	No	11.00%	1.62%	10 years
35	Michigan	SERS	Yes	Non-contributory	8.30%	10 years
36	Michigan	MERS	Yes	Varies by plan (0 to 10.00%)	Varies by plan	6, 8, or 10 yrs
37	Michigan	PSERS	Yes	3.00 to 4.30%	10.10%	10 years
38	Minnesota	MSRS	Yes	5.00%	5.00%	3 years
39	Minnesota	PERA	Yes	9.10%	11.78%	3 years
40	Minnesota	TRA	Yes	9.00%	13.14%	3 years
41	Mississippi	PERS	Yes	9.00%	2.18%	8 years
42	Missouri	SERS	Yes	4.00%	4.51%	5 years
43	Missouri	LAGERS	Yes	0 to 4.00%	Varies by plan	5 years
44	Missouri	PSRS	No	14.00%	14.00%	5 years
45	Montana	PERS	Yes	6.90%	7.17%	5 years

46	Montana	TRS	Yes	7.15%	2.49%	5 years
47	Nebraska	SERS	Yes	4.80%	156% of mbr contr	3 years
48	Nebraska	CERS	Yes	4.50%	150% of mbr contr	3 years
49	Nebraska	SPP	Yes	8.28%	101% of mbr contr	5 years
50	Nevada	PERS	No	11.88%	11.88%	5 years
51	New Hampshire	NHRS	Yes	7.00%	11.04%	10 years
52	New Jersey	PERS	Yes	6.50%	4.70% state; 3.49% local	10 years
53	New Jersey	TPAF	Yes	6.50%	14.3%	10 years
54	New Mexico	PERA	Yes	Varies	Varies	5 years
55	New Mexico	ERB	Yes	7.90%	13.90%	5 years
56	New York	ERS	Yes	3.00%	9.40%*	10 years
57	New York	TRS	Yes	3.50%	8.62%	10 years
58	North Carolina	TSERS	Yes	6.00%	5.12%	5 years
59	North Carolina	LGERS	Yes	6.00%	6.88%	5 years
60	North Dakota	PERS	Yes	4.00%	4.12%	3 years
61	North Dakota	TRF	Yes	8.75%	8.75%	5 years
62	Ohio	PERS	No	10.00%	14.00%	5 years
63	Ohio	STRS	No	10.00%	14.00%	5 years
64	Oklahoma	PERS	Yes	3.50%	16.50%	6 years
65	Oklahoma	TRS	Yes	7.00%	9.50%	5 years
66	Oregon	PERS	Yes	6.00%	5.73%	5 years
67	Pennsylvania	SERS	Yes	6.25%	8.01%	10 years
68	Pennsylvania	PSERS	Yes	7.37% (average)	8.65%	5 years
69	Rhode Island	ERS	Yes	8.75% (9.50% teachers)	22.98% (22.32% teachers)	10 years
70	South Carolina	SCRS	Yes	6.50%	9.68%	5 years
71	South Dakota	SRS	Yes	6.00%	6.00%	3 years
72	Tennessee	CRS	Yes	Non-contributory	13.02%	5 years
73	Texas	ERS	Yes	6.50%	6.95%	10 years
74	Texas	TRS	No	6.40%	6.40%	5 years
75	Texas	MRS	Yes	5.00, 6.00, or 7.00%	9.86%*	5 years
76	Utah	SRS	Yes	Non-contributory	16.32%	4 years
77	Vermont	SRS	Yes	5.10%	4.81%	5 years
78	Vermont	TRS	Yes	5.00%	1.80%	5 years
79	Virginia	SRS	Yes	5.00%	6.26%	5 years
80	Washington	PERS	Yes	4.91%	8.41%	10 years
81	Washington	TRS	Yes	4.80%	9.18%	10 years
82	West Virginia	PERS	Yes	4.50%	12.50%	5 years
83	West Virginia	TRS	Yes	6.00%	29.20%	5 years
84	Wyoming	WRS	Yes	7.00%	7.12%	4 years
85	Milwaukee	City	Yes	5.50%	0.00%**	4 years
86	Milwaukee	County	Yes	Non-contributory	$29,529,322	5 years
87	Wisconsin	WRS	Yes	5.00%	4.80%	Immediate

*Average rate for 2012 contribution

**No employer contribution was necessary as expected assets equaled expected actuarial accrued liability at the time of the most recent actuarial study

Table 3: Final Average Salary Periods-Formulas-Limitations

	State	Fund Name	FAS Period	Formula Multiplier	Limitation
1	Alabama	ERS	3 H/10	2.0125%	None
2	Alabama	TRS	3 H/10	2.0125%	None
3	Alaska	PERS	N/A	N/A; defined contribution plan	None
4	Alaska	TRS	N/A	N/A; defined contribution plan	None
5	Arizona	SRS	3 HC	2.1% (1st 20 yrs); 2.15% (next 5 yrs); 2.2% (next 5 yrs); 2.3% over 30 yrs	80% FAS
6	Arkansas	PERS	3 H	2% + .5% for yrs of service over 28 yrs	100% FAS
7	Arkansas	TRS	3 H	2.15%	None
8	California	PERS	3 H	2% at 55; 2.5% at 63 or older	65 yrs max
9	California	TRS	1 H	2% at 60; 2.4% at 63	100% FAS
10	Colorado	PERA	4 H	2.5%	100% FAS
11	Connecticut	SERS	3 H (130% cap)	1.33% + .5% over $48,800; 1.625% yrs over 35	None
12	Connecticut	TRS	3 H	2%	75% FAS
13	Delaware	SEPP	3 H	1.85%	None
14	Florida	FRS	8 H	1.6% to 1.68% (age and yrs of service)	100% FAS
15	Georgia	ERS	2 HC	2%	90% high yr
16	Georgia	TRS	2 HC	2%	40 yrs max
17	Hawaii	ERS	3 H	2%	None
18	Idaho	PERS	3 1/2 HC	2%	100% FAS
19	Illinois	SRS	8 HC/10	1.67%	75% FAS
20	Illinois	TRS	4 HC/10	2.2%	75% FAS
21	Illinois	MRF	4 HC/10	1.67% (1st 15 yrs); 2% (added yrs)	75% FAS
22	Indiana	PERF	5 H	1.1% + money purchase annuity	None
23	Indiana	TRF	5 H	1.1% + money purchase annuity	None
24	Iowa	PERS	3 H	2% (1st 30 yrs); 1% (next 5 yrs)	65% FAS
25	Kansas	PERS	3 H/5 H	1.75%	None
26	Kentucky	KERS	Last 5	1.1-1.75% depending on yrs service	None
27	Kentucky	CERS	5 H	1.1-1.75% depending on yrs service	None
28	Kentucky	TRS	5 H/3 H	1.7-3% depending on yrs service	100% FAS
29	Louisiana	SERS	3 HC	2.5%	100% FAS
30	Louisiana	TRSL	3 HC	2.5%	100% FAS
31	Maine	SRS	3 H	2%	None
32	Maryland	SRS	3 HC	1.4%	100% FAS
33	Massachusetts	SERS	3 HC	.5% to 2.5% (age-related)	80% FAS
34	Massachusetts	TRS	3 HC	.5% to 2.5% (age-related) + 2% for each yr over 24	80% FAS
35	Michigan	SERS	3 HC	1.5%	None
36	Michigan	MERS	5/3 HC	1.3% to 2.5% (employer option)	80% FAS for multipliers of 2.25% and over
37	Michigan	PSERS	5/3 HC	1.5%	None
38	Minnesota	MSRS	5 H	1.7%	None
39	Minnesota	PERA	5 HC	2.7%	None
40	Minnesota	TRA	5 HC	2.5%	None
41	Mississippi	PERS	25 + yr avg	2% (1st 25 yrs); 2.5% (added yrs)	None
42	Missouri	SERS	3 HC	1.7% (and .8% to age 62 if R90 met)	None
43	Missouri	LAGERS	5/3 HC	1-2.5% (varies by employer option)	None
44	Missouri	PSRS	3 HC	2.5%; 2.55% with 31 or more yrs of service	100% FAS
45	Montana	PERS	3 HC	1.785%; 2% with at least 25 yrs of service	None

46	Montana	TRS	3 HC	1.67%	None
47	Nebraska	SERS		Cash balance	None
48	Nebraska	CERS		Cash balance	None
49	Nebraska	SPP	3 H	2%	None
50	Nevada	PERS	3 HC	2.5%	75% FAS
51	New Hampshire	NHRS	3 H (cap)	1.67% to 65; 1.515% after 65	$120,000
52	New Jersey	PERS	5 H	1.67%	None
53	New Jersey	TPAF	5 H	1.67%	None
54	New Mexico	PERS	3 HC	Varies	80% FAS
55	New Mexico	ERA	5 HC	2.35%	None
56	New York	ERS	3 HC (10% cap)	1.67% (under 20 yrs); 2% (over 20 yrs); 3.5% (over 30 yrs)	None
57	New York	TRS	3 HC	1.67% (under 25 yrs)	None
58	North Carolina	TSERS	4 HC	1.82%; 2% (over 25 yrs); 3.5% (over 30 yrs)	None
59	North Carolina	LGERS	4 HC	1.85%	None
60	North Dakota	PERS	3 H/10	2%	None
61	North Dakota	TRF	5H	2%	None
62	Ohio	PERS	3 H	2.2% (1st 30 yrs); 2.5% (added yrs)	100% FAS
63	Ohio	STRS	3 H	2.2% (1st 35 yrs); 2.5% (35 or more yrs)	100% FAS
64	Oklahoma	PERS	3 H/10	2%	None
65	Oklahoma	TRS	5 H	2%	None
66	Oregon	PERS	3 H	1.5%	None
67	Pennsylvania	SERS	3 H	2-2.5%	100% high yr
68	Pennsylvania	PSERS	3 H	2-2.5%	None
69	Rhode Island	ERS	5 HC	1.6% (1st 10 yrs); 1.8% (2nd 10 yrs); 2% (21-25 yrs); 2.25% (26-30 yrs); 2.5% (31-37 yrs); 2.25% (38 yrs)	80% FAS
70	South Carolina	SCRS	3 HC	2.25%	None
71	South Dakota	SRS	3 HC/10	1.7%	None
72	Tennessee	CRS	5 HC	1.5% + .25% FAS over SSIL	90% FAS
73	Texas	ERS	4 H	2.3%	100% AMC*
74	Texas	TRS	5 H	2.3%	None
75	Texas	MRS	Last 3 yrs**	Money purchase options	None
76	Utah	SRS	3 H	2%	None
77	Vermont	SRS	3 HC	1.67%	60% FAS
78	Vermont	TRS	3 HC	1.67%	53.34% FAS
79	Virginia	SRS	3 HC	1.7%	100% FAS
80	Washington	PERS	5 HC	1% + .25% per yr after 20 yrs (non-contributory)	None
81	Washington	TRS	5 HC	1% + .25% per yr after 20 yrs (non-contributory)	None
82	West Virginia	PERS	3 HC/10	2%	None
83	West Virginia	TRS	5 H/15	2%	None
84	Wyoming	WRS	3 H	2.125% (1st 15 yrs); 2.25% (added yrs)	None
85	Milwaukee	City	3 H	2%	70% FAS
86	Milwaukee	County	3 HC	2%	80% FAS
87	Wisconsin	WRS	3 H	1.6%	70% FAS

*Average monthly compensation

**36 months ending 13 months before calculation

Table 4: Post-Retirement Increases and State Tax Provisions

	State	Fund Name	Social Security	Annual Post-Retirement Increases	State Taxation of PERS Benefits
1	Alabama	ERS	Yes	Ad hoc only	Benefits exempt
2	Alabama	TRS	Yes	Ad hoc only	Benefits exempt
3	Alaska	PERS	No	N/A: acct balance + invest earnings	No income tax
4	Alaska	TRS	No	N/A: acct balance + invest earnings	No income tax
5	Arizona	SRS	Yes	Excess earnings - 4% cap	Exempt to $2,500
6	Arkansas	PERS	Yes	3%	Exempt to $6,000
7	Arkansas	TRS	Yes	3%	Exempt to $6,000
8	California	PERS	Yes	2% max based on CPI	Benefits taxable
9	California	TRS	No	2%	Benefits taxable
10	Colorado	PERA	No	Lesser of 2% or CPI-W	Exempt to $20,000/$24,000
11	Connecticut	SERS	Yes	60% of CPI up to 6%, 2.5% minimum	Benefits taxable
12	Connecticut	TRS	No	2%	Benefits taxable
13	Delaware	SEPP	Yes	Ad hoc only	Exempt to $12,500
14	Florida	FRS	Yes	3%	No income tax
15	Georgia	ERS	Yes	Ad hoc-based on CPI	Exempt to $40,000
16	Georgia	TRS	Yes	Ad hoc-based on CPI	Exempt to $40,000
17	Hawaii	ERS	Yes	2.5%	Benefits exempt
18	Idaho	PERS	Yes	CPI - 1% minimum to 6% max (conditional)	Benefits taxable
19	Illinois	SRS	Yes	3% or 1/2 of CPI	Benefits exempt
20	Illinois	TRS	No	3%	Benefits exempt
21	Illinois	MRF	Yes	3%	Benefits exempt
22	Indiana	PERF	Yes	Ad hoc only (1.5% presumed)	Benefits taxable
23	Indiana	TRF	Yes	Ad hoc only (1% presumed)	Benefits taxable
24	Iowa	PERS	Yes	Excess earnings - CPI; 3% cap	Exempt to $6,000, $12,000 married
25	Kansas	PERS	Yes	2%	Benefits exempt
26	Kentucky	KERS	Yes	1.5%	Exempt to $41,110
27	Kentucky	CERS	Yes	1.5%	Exempt to $41,110
28	Kentucky	TRS	No	1.5%	Exempt to $41,110
29	Louisiana	SERS	No	Excess earnings; CPI; 3% cap	Benefits exempt
30	Louisiana	TRSL	No	Excess earnings	Benefits exempt
31	Maine	SRS	No	CPI - 4% cap	Exempt to $6,000
32	Maryland	SRS	Yes	CPI - 3% cap	Exempt to $23,600
33	Massachusetts	SERS	No	CPI - on 1st $12,000-conditional, 3% cap	Benefits exempt
34	Massachusetts	TRS	No	CPI - on 1st $12,000-conditional, 3% cap	Benefits exempt
35	Michigan	SERS	Yes	3% ($300 annual cap)	Benefits exempt
36	Michigan	MERS	Yes	3 plans - depending on employer agreement (generally 2.5%)	Benefits exempt
37	Michigan	PSERS	Yes	3%	Benefits exempt
38	Minnesota	MSRS	Yes	2.5%	Benefits taxable
39	Minnesota	PERA	Yes	1%	Benefits taxable
40	Minnesota	TRA	Yes	2%	Benefits taxable
41	Mississippi	PERS	Yes	3%	Benefits exempt
42	Missouri	SERS	Yes	80% CPI - 5% cap	Exempt to $33,703

43	Missouri	LAGERS	Yes	CPI - 4% cap	Exempt to $33,703
44	Missouri	PSRS	No	CPI - 5% cap; 80% of original benefits lifetime cap	Exempt to $33,703
45	Montana	PERS	Yes	1.5%	Exempt to $3,600
46	Montana	TRS	Yes	1.5%	Exempt to $3,600
47	Nebraska	SERS	Yes	2.5%	Benefits taxable
48	Nebraska	CERS	Yes	2.5%	Benefits taxable
49	Nebraska	SPP	Yes	CPI - 2.5% cap	Benefits taxable
50	Nevada	PERS	No	2 to 5%	No income tax
51	New Hampshire	NHRS	Yes	Ad hoc	Benefits exempt
52	New Jersey	PERS	Yes	Suspended	Exempt to $15,000/$20,000
53	New Jersey	TPAF	Yes	Suspended	Exempt to $15,000/$20,000
54	New Mexico	PERA	Yes	3%	$2,500 exempt
55	New Mexico	ERA	Yes	50% of CPI - 2% min; 4% cap	$2,500 exempt
56	New York	ERS	Yes	50% of CPI, max 3% on 1st $18,000	Benefits exempt
57	New York	TRS	Yes	50% of CPI, max 3% on 1st $18,000	Benefits exempt
58	North Carolina	TSERS	Yes	Ad hoc	Exempt to $4,000/$8,000
59	North Carolina	LGERS	Yes	Ad hoc	Exempt to $4,000/$8,000
60	North Dakota	PERS	Yes	Ad hoc	Benefits taxable
61	North Dakota	TRF	Yes	Ad hoc	Benefits taxable
62	Ohio	PERS	No	3%	Benefits taxable
63	Ohio	STRS	No	3%	Benefits taxable
64	Oklahoma	PERS	Yes	Ad hoc	Exempt to $10,000
65	Oklahoma	TRS	Yes	Ad hoc	Exempt to $10,000
66	Oregon	PERS	Yes	CPI - 2% cap	Benefits taxable
67	Pennsylvania	SERS	Yes	Ad hoc	Benefits exempt
68	Pennsylvania	PSERS	Yes	Ad hoc	Benefits exempt
69	Rhode Island	ERS	Yes	CPI - 3% cap	Benefits taxable
70	South Carolina	SCRS	Yes	CPI - 2% cap	$15,000 deduction
71	South Dakota	SRS	Yes	3.1% (sliding scale)	No income tax
72	Tennessee	CRS	Yes	CPI - 3% cap	Benefits exempt for income under $16,200/$27,000
73	Texas	ERS	Yes	Ad hoc	No income tax
74	Texas	TRS	No	Ad hoc	No income tax
75	Texas	MRS	Yes	Up to 70% of CPI (ad hoc)	No income tax
76	Utah	SRS	Yes	CPI - 4% cap	Exempt to $7,500/$15,000
77	Vermont	SRS	Yes	50% of CPI - 5% cap	Benefits taxable
78	Vermont	TRS	Yes	50% of CPI - 5% cap	Benefits taxable
79	Virginia	SRS	Yes	CPI - 5% cap	Deduction up to $12,000
80	Washington	PERS	Yes	CPI - 3% cap	No income tax
81	Washington	TRS	Yes	CPI - 3% cap	No income tax
82	West Virginia	PERS	Yes	No	Exempt to $2,000
83	West Virginia	TRS	Yes	No	Exempt to $2,000
84	Wyoming	WRS	Yes	CPI - 3% cap	No income tax
85	Milwaukee	City	Yes	CPI - 3% cap	Limited exemptions
86	Milwaukee	County	Yes	2%	Limited exemptions
87	Wisconsin	WRS	Yes	Investment earnings; reductions possible	Limited exemptions

Table 5: Major Pension Reforms Enacted in 2011 and 2012

North Carolina	**2011**	**Vesting increased to 10 years from 5 years**
Alabama	2012	Tier II for new employees on or after January 1, 2013
		5 year AFC instead of 3 year AFC
		No sick leave conversion to retirement credits
		New requirement of age 62 with 10 years of service instead of age 60 with 10 years or any age with 25 years
		New formula is 1.65% decreased from 2.0125%
Kansas	2012	New employees on or after January 1, 2015 will have a cash balance plan
Louisiana	2012	New employees on or after July 1, 2013 will have a cash balance plan
		Increases AFC years from 3 years to 5 years for municipal employees
New York	2012	Unreduced benefits at normal retirement age of 63
		5 year AFC instead of 3 year AFC
		Spiking provision with 10% Maximum
		Old formula: 0-25 years (1.67%); 25 to 30 years (2%); 30 or more years (60% of AFC plus 1.5% per year over 30)
		New formula: Less 20 years (1.67%) 20 years (1.75%); over 20 years (2% for years over 20)
		Requires 10 years to vest
South Carolina	2012	Requires 8 years to vest instead of 5 years for new members on or after July 1, 2012
		5 year AFC instead of 3 year AFC
		New requirement of age 65 with 8 years of service or Rule of 90 (Present employees could retire after 28 years of service regardless of age)
Virginia	2012	Hybrid Plan for members on or after January 1, 2014
		5 year AFC instead of 3 year AFC for non-vested members in old plan effective January 1, 2013
		Reduce formula from 1.7% to 1.65% for service earned after January 1, 2013
		Age for Normal retirement is changed to normal Social Security age with five years of service or Rule of 90
		COLAs will be capped at 3% for non-vested members
Washington	2012	Choice between defined benefit plan and hybrid plan for new members
		For existing members who have 30 years but have not reached the normal retirement age of 65, benefits are reduced by 3% per year short of age 65
Wyoming	2012	5 year AFC instead of 3 year AFC
		Normal retirement will be age 65 with 4 years of service or Rule of 85
		Formula is reduced to 2% from 2.125% for the first 15 years plus 2.25% for additional years

Arizona	2011	Normal retirement will be 55/30; 60/25; 62/10; and age 65
Connecticut	2011	Current members: Higher reduction factors for early retirement from 3% to 6% per year Increase age and service requirement to age 63 with 25 years from age 60 with 25 and to 65 with 10 years from 62 with 10 years New Members: 5 year AFC instead of 3 year AFC Vesting at 10 years instead of 5 years Normal retirement will be age 63 with 25 years of service or age 60 with 25 years of service
Delaware	2011	Normal retirement for member hired on or after January 1, 2012 will be age 65 with 10 years of service, age 60 with 20 years of service or age with 30 years Members hired before January 1, 2012 can retire age 62 with 10 years, age 60 with 15 years or any age with 30 years Vesting at 10 years instead of 5 years for news hired on or after January 1, 2012
Florida	2011	8 year AFC instead of 3 year AFC Normal retirement age changes from age 62 to age 65 and service changes from 30 to 33 years
Hawaii	2011	Vesting at 10 years instead of 5 years for news hired 5 year AFC instead of 3 year AFC Formula changed from 2% to 1.75% Normal retirement age will be age 60 with 10 years or age 55 with 25 years
Kansas	2011	Members chose to increase contributions from 4% to 6% plus increase formula from 1.75% to 1.85% for future years of service OR Members chose to continue contributions at 4% and reduce formula from 1.75% to 1.4% for future years of service
Louisiana	2011	Spiking of AFC could not exceed 15% of prior year
Maine	2011	Normal retirement age changes to age 65 from age 62
Maryland	2011	Current Members: Cola capped at 2.5% Contributions increased to 7% from 5% Future members: 5 year AFC instead of 3 year AFC Vesting increased to 10 years from 5 years Member contributions of 7% Formula decreased to 1.5% from 2% Normal retirement age is age 65 with 10 years of service or Rule of 90
Massachusetts	2011	Normal retirement age from 55 to age 60 Reduces formula according to service to encourage longer service before retirement

Michigan	2011	Legislation enacted in 2010 gave new hires choice between defined benefit plan and defined contribution plan
Mississippi	2011	Normal retirement is age 60 with 8 years of service or 30 years of service (was 25 years) Formula changed to 2% for first 30 years and 2.5% for years over 30 from 2% for first 25 years and 2.5% for additional years
Montana	2011	5 year AFC instead of 3 year AFC Normal retirement is age 65 with 5 years of service or 30 years of service Changed formula according to the number of years of service 1.5% if less than 10 years, 1.7857% if more than 10 but less than 30 and 2% if more than 30 years Prior members had 2% formula for those with 25 years
New Hampshire	2011	5 year AFC instead of 3 year AFC $120,000 cap on retirement benefits Normal retirement age increased from age 60 to age 65 Formula decreased to 2% from 2.5%
New Jersey	2011	Normal retirement is 30 years and age 65 for unreduced benefits
North Dakota	2011	Normal retirement is Rule of 90 with minimum age of 60 or age 65
Oklahoma	2011	Normal retirement is Rule of 90 with minimum age of 60 or age 65 Vesting for elected officials increased to 8 years from 6 years
Rhode Island	2011	Vesting increased to 10 years from 5 years Normal Social Security age For years after July 1, 2012 the formula is 1% per year 5 year AFC instead of 3 year AFC
Texas	2011	Normal retirement is Rule of 85 or age 64 with 10 years Vesting increased to 10 years from 5 years

APPENDIX TWO[2]

RETIREE MEDICAL BENEFITS: A COMPARISON

North Carolina

- Provides a full employer subsidy of the retiree-only premium for employees hired before October 2006 with five years of service.
- Provides a full employer subsidy of the retiree-only premium for employees hired after October 2006 with 20 years of service and a 50 percent subsidy with 10 years of service.
- Offers North Carolina's 70/30 plan without a retiree-only premium. There is an $11 or $23 per month retiree-only premium for the 80/20 plan depending upon Medicare eligibility.
- Provides Medicare-eligible and non-Medicare retirees with essentially the same prescription drug coverage.
- Has a per capita unfunded accrued liability of $2,741.

South Carolina

- Provides a full employer subsidy of the retiree-only premium for employees hired before 2008 with 10 years of service.
- Provides a full employer subsidy of the retiree-only premium for employees hired after 2008 with 25 years of service and a 50 percent subsidy with 15 years of service.
- Charges a retiree-only premium of $10 per month for South Carolina's Savings Plan and $98 per month in South Carolina's Standard Plan.
- Has a per capita unfunded accrued liability that is only slightly smaller than North Carolina's.

Virginia

- Provides a premium subsidy of $4 per month per year of service. This monthly subsidy is fixed and does not increase over time like medical costs. This lack of growth greatly reduces Virginia's retiree medical liability.
- Has a per capita unfunded accrued liability that is less than 10% of North Carolina's.

Tennessee

[2] Based on provisions available on plan websites in October, 2012. Per capita unfunded liability from Retiree Health Plans in the Public Sector, Robert Clark and Melinda Morrill, 2010.

- Covers between 25% and 80% of the premium for non-Medicare-eligible retirees, depending on length of service and employer (State or local school system).
- Provides only a Medicare Supplement to Medicare-eligible retirees, with a premium subsidy of $25 to $50 per month depending on length of service
- Provides no prescription drug coverage to Medicare-eligible retirees.
- Has a per capita unfunded accrued liability that is less than 15% of North Carolina's.

APPENDIX THREE[3]

2011-2012 Health Plan Comparison By State to North Carolina's 80/20 Plan[1]

Standard In-Network Benefit Design	North Carolina	States													Benefit Comparison Summary[11]		
		California PER Select	Florida Standard	Georgia Standard	Kentucky Standard	Louisiana	Mississippi Select	New Jersey Direct 2030	New York Empire	South Carolina	Tennessee	Texas	Virginia	West Virginia	Lower	Same	Higher
Coinsurance (Plan pays)	80%	80%	80%	80%	75%	90%	80%	90%	100%	80%	80%	80%	100%[9]	80%	1	8	4
EE Deductible	$700	$500	$250	$1000	$500	$500	$1000	None	None	$350	$700	None	$225	Varies[10]	10	1	2
EE Out of Pocket Max	$2,100	$3000	$2500	$3000	$3500	$1000	$2000	$800 per person	None	$2000	$1700	$2000	$1500	Varies[10]	8	0	5
PCP Visit	$30	$20	$15	$45	D&C	D&C	D&C	$20	$15, $18 or $20 per visit depends on group	$10 then D&C	$30	$25	$25	$15	7	1	1
Specialist	52[2]/$70[2]	$20	$25	$55	D&C	D&C	D&C	$30 adult, $20 child	$15, $18 or $20 per visit depends on group	$10 then D&C	$45	$40	$40	$25	9	0	0
Emergency Room	$233 D&C	$50 D&C	$100	$150	$50 D&C	$150 D&C	D&C	$125	$60 or $70/visit depends on group	$125 D&C	D&C	$150	$125	$50	13	0	0
RX Drug Generic (30 day supply)	$12	$5	$7	$20	25% $10 min/$25 max	50%, $50 max	$75 deductible then $12	$3	$5	$9	$10	$15	$15	$5 $75/$150 deductible	9	0	4
RX Drug Preferred Brand (30 day supply)	$40[3]	$20	$30	$50	25% $20 min/$50 max	50%, $50 max.[3]	$75 deductible then $40	$10	$15	$30	$40	$35	$25	$15 $75/$150 deductible	9	1	2
Premium (Employee)	$21.62	Varies[4]	$50	$129.18[5]	$0	$147.44	$20[6]	Varies[7]	Varies[8]	$97.68	$131.39	$0[5]	$55	Varies[10]	3	0	7
Premium (Family)	$632.74	Varies[4]	$180	$333.96[5]	$315.76	$513.14	$667[6]	Varies[7]	Varies[8]	$306.56	$326.62	$418.64[5]	$172	Varies[10]	9	0	1

10 States with a Medicare Plan

1. California
2. Georgia
3. Kentucky
4. Louisiana
5. New Jersey
6. New York
7. South Carolina
8. Tennessee
9. Texas
10. West Virginia

3 States with no Medicare Plan

1. Florida
2. Mississippi
3. North Carolina

Key:

[1] Compared PPO plans that were most comparable to the State Health Plan's 80/20 Standard plan, except used HMO for Georgia.

[2] Copay for Short Term Rehabilitation, Chiropractic and Mental Health and Chemical Dependency. Compared $70 copay in Benefit Comparison Summary.

[3] If generic available, members pay generic copay, plus difference between cost of brand name drug & cost of the generic. Not included in Benefit Comparison Summary.

[4] Varies by employer or former employer's contribution to premium, and the length of employment. For total plan premiums, see CalPERS 2012 Health Premiums chart on pages 27-29. Not included in Benefit Comparison Summary.

[5] Premium is based on non-tobacco use rates.

[6] Premium is for date or hire prior to 1/1/06.

[7] New Jersey's premiums vary and are 1.5 % of employee salary. For total plan premiums, refer to pages 30-32. Not included in Benefit Comparison Summary.

[8] New York premiums vary by group. Refer to pages 33-37. Not included in Benefit Comparison Summary.

[9] 80% coinsurance for some services.

[10] West Virginia varies by income. Refer to chart on pages 38-39.

[11] Ranks by benefit category the number of plans that have a lower, the same or higher benefit level compared to the SHP 80/20 plan.

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[3] The State Health Plan, "Benefits By State Report 2011 – 2012: A Summary of the Health Plan Benefits of 13 States and North Carolina's State Health Plan for Teachers and State Employees."

APPENDIX FOUR

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2009

SESSION LAW 2009-63
HOUSE BILL 1221

AN ACT DIRECTING THE OFFICE OF STATE PERSONNEL, DEPARTMENT OF PUBLIC INSTRUCTION, NORTH CAROLINA COMMUNITY COLLEGES, AND THE UNIVERSITY OF NORTH CAROLINA TO DEVELOP AN EMPLOYEE BENEFITS STATEMENT THAT REFLECTS THE CURRENT VALUE OF EMPLOYEE BENEFITS PROVIDED TO STATE, PUBLIC SCHOOL, AND COMMUNITY COLLEGE EMPLOYEES.

The General Assembly of North Carolina enacts:

SECTION 1. The Office of State Personnel, Department of Public Instruction, North Carolina Community Colleges, and the University of North Carolina shall conduct a study on development of an employee benefits statement that reflects the current value of employee benefits provided to active State employees, public school employees, and community college employees. For the purposes of this act, the term "benefits statement" means a document showing an employee's total compensation, including all cash income, and the value of all employee benefits.

SECTION 2. The personalized benefits statement developed for individual State employees, public school employees, and community college employees must include a determination of at least the value of:

(1) Employee and dependent coverage under the State Health Plan for Teachers and State Employees.
(2) Employee and survivors coverage under the Teachers' and State Employees' Retirement System.

SECTION 3. The Office of State Personnel, Department of Public Instruction, North Carolina Community Colleges, and the University of North Carolina shall submit an interim report to the General Assembly and to the Fiscal Research Division on or before December 31, 2009, and a detailed written report on the development of the employee benefits statement, including a recommended implementation schedule and an estimate of the costs of any information technologies or modifications necessary to generate the statements on or before June 30, 2010.

SECTION 4. This act is effective when it becomes law.

In the General Assembly read three times and ratified this the 1st day of June, 2009.

Approved 5:17 p.m. this 8th day of June, 2009