2011-2012

LEGACY COSTS FROM THE STATE HEALTH PLAN, PENSIONS AND ESC, HOUSE SELECT COMMITTEE

MINUTES

HOUSE SELECT COMMITTEE ON LEGACY COSTS from the STATE HEALTH PLAN, PENSIONS and ESC

REPRESENTATIVE DALE FOLWELL, CoChair

REPRESENTATIVE WILLIAM C. McGEE, CoChair

Session

2011-2012

Committee Assistants

Jayne A. Nelson

Susan Whitehead

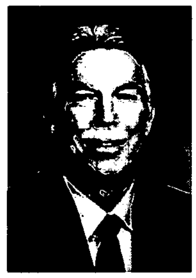
NORTH CAROLINA GENERAL ASSEMBLY

COMMITTEE NAME
2011-2012 SESSION

Rep. Dale Folwell
Co-Chair

Rep. Bill McGee
Chair

Rep. George Cleveland



Rep. Jeff Collins

Rep. Susi Hamilton

Rep. Darren Jackson

Rep. Linda Johnson

Rep. Tim Moffitt

Rep. Garland Pierce

HOUSE COMMITTEE ON LEGACY COSTS FROM THE STATE HEALTH PLAN, PENSIONS AND ESC

MEMBER	ASSISTANT	PHONE	OFFICE	SEAT
Rep. Dale Folwell, Co-Chair	Susan Whitehead	733-5865	532	99
Rep. William C. McGee, Co-Chair	Jayne Nelson	733-5747	634	53
Rep. George Cleveland	Pamela Ahlin	715-6707	417A	30
Rep. Jeff Collins	Wes Householder	733-5802	1006	65
Rep. Susie Hamilton	Ruth Merkle	733-5754	1319	117
Rep. Darren Jackson	Angela McMillan	733-5974	1019	106
Rep. Linda Johnson	Joanna Hogg	733-5861	301D	19
Rep. Tim Moffitt	Melissa Carter	715-3012	1025	85
Rep. Garland Pierce	Mildred Alston	733-5803	1204	46

ATTENDANCE

House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC 2011-2012

(Name of Committee)

DATES	12-13-11	10-16-12	11-13-12	12-11-12										
Members:														
Rep. Dale Folwell, Co_Chair	X	X	X	X										
Rep. Bill McGee, Co-Chair	X	X	X	X										
Rep. George Cleveland	X		X	X										
Rep. Jeff Collins	X		X											
Rep. Susi Hamilton	X	X	X	X										
Rep. Darren Jackson	X	X	X	X										
Rep. Linda Johnson	X	X	X											
Rep. Tim Moffitt	X	X	X											
Rep. Garland Pierce		X		X										
Committee Assistants:														
Jayne Nelson, Committee Asst.	X	X	X	X										
Susan Whitehead, Committee Asst.	X													
Staff:														
Karen Cochrane-Brown, Research	X		X	X										
Theresa Matula, Research	X	X	X	X										
Marshall Barnes, Fiscal Research	X	X	X	X										
Stanley Moore, Fiscal Research		X	X	X										
David Vanderwiede, Fiscal Research	X	X	X	X										
Kristin Walker, Fiscal Research														
Barry Boardman, Fiscal Research		X		X										
Mark Bondo, Fiscal Research		X		X										

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.

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

Effective this the 19th day of September, 2011.

Thom Tillis

Thom Tillis
Speaker

NORTH CAROLINA GENERAL ASSEMBLY
Legislative Services Office
George R. Hall, Legislative Services Officer

Research Division
300 N. Salisbury Street, Suite 545
Raleigh, NC 27603-5925
Tel. 919-733-2578 Fax 919-715-5460

O. Walker Reagan
Director

October 18, 2011

The Honorable Dale Folwell, Co-Chair
House Select Committee on Legacy Costs from the State Health Plan, Pensions, and ESC
North Carolina House of Representatives
300 North Salisbury Street, Room 301F
Raleigh, NC 27603-5925

Dear Representative Folwell,

Congratulations on your designation as Co-Chair of the House Select Committee on Legacy Costs from the State Health Plan, Pensions, and ESC.

I have asked Ms. Karen Cochran-Brown, and Ms. Theresa Matula, with the Research Division; and Mr. Marshall Barnes, Mr. Stanley Moore, Mr. David Vanderweide, and Ms. Kristin Walker, with the Fiscal Research Division, to serve as staff to this Committee. In accordance with the Committee's directions as expressed through the Co-Chairs, they will aid in all aspects of the Committee's work, and will attend the meetings of the Committee when it convenes upon the call of the Co-Chairs. Please note that all these individuals also will be responsible for staffing other study committees and commissions during the Interim.

Should you wish to contact Ms. Cochran-Brown, and Ms. Matula, they may be reached by telephone at (919) 733-2578. Mr. Barnes, Mr. Moore, Mr. Vanderweide, and Ms. Walker, may be reached at (919) 733-4910.

My best wishes to you and the Committee in its work. If I may be of any service to you or the Committee, please contact me.

Yours truly,

O. Walker Reagan

O. Walker Reagan
Director of Research

OWR/tmp

cc: Hon. Thom Tillis, Speaker
Hon. William McGee, Co-Chair
Mr. George Hall
Mr. Mark Trogdon
Ms. Nicole McGuiness
Ms. Sarah Wolfe
Ms. Karen Cochran-Brown
Ms. Theresa Matula
Mr. Marshall Barnes
Mr. Stanley Moore
Mr. David Vanderweide
Ms. Kristin Walker
Ms. Becky Cook
Mr. Brian Peck

NORTH CAROLINA GENERAL ASSEMBLY
Raleigh, North Carolina 27601

December 6, 2011

MEMORANDUM

TO: Members, Legacy Costs from the State Health Plan, Pensions and ESC
FROM: Rep. Dale Folwell, Chairman
Rep. William McGee, Chairman
SUBJECT: Meeting Notice

DAY	DATE	TIME	ROOM
Tuesday	December 13, 2011	2:00	Rm. 605 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Susan Whitehead at 919-733-5865.

cc: Committee Record _X_
Interested Parties _X_

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and Employment Security Commission

Agenda

Tuesday, December 13, 2011
2:00 p.m.
Legislative Office Building, Room 605

I. Welcome and Comments
Representative Dale Folwell, Cochair
Representative William McGee, Cochair

II. Pension Benefits
Marshall Barnes, Fiscal Research Division, NCGA

III. Retiree Medical Benefits Liabilities
David Vanderweide, Fiscal Research Division, NCGA

IV. State Debt
Mark Bondo, Fiscal Research Division, NCGA

V. Unemployment Debt to Federal Government
Claire Hester, Fiscal Research Division, NCGA

VI. Committee Discussion

STATE OF NORTH CAROLINA

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and the Employment Security Commission

December 13, 2011

The House Select Committee on Legacy Costs from the State Health Plan, Pensions, and the Employment Security Commission was called to order on Tuesday, December 13, 2011, at 2:00 pm in Room 605 Legislative Office Building. The following members were present: Representative Dale Folwell, Co-Chair, Representative Bill McGee, Co-Chair, Representative George Cleveland, Representative Jeff Collins, Representative Susi Hamilton, Representative Darren Jackson, Representative Linda Johnson, and Representative Tim Moffitt.

Chairman Folwell called the meeting to order. He thanked the Sergeant-at-Arms and staff for their services. A copy of the visitor's registration sheet is attached.

The purpose of this committee is to study the unfunded liabilities and other kinds of legacy costs that are going to impact employees and taxpayers of North Carolina. As we go forward over the next two decades, future members of the House and Senate will realize what a huge impact this will have on the budget. Core functions of state government will be affected by the invisible costs of the state as an employer of people. The Co-Chairs consider the legacy costs to be those associated with employing people like workers compensation costs of which we have had major reform on this year, the costs associated with the Employment Security Commission (ESC) at the state level and as an employer of people, and the unfunded Government Accounting Standards Board (GASB) healthcare liability. The GASB healthcare liability when looked at as a percentage of the state's operating budget is one of the largest liability in the United States. There are other states that have larger liabilities than North Carolina, but when looked at percentage, North Carolina is right at the top. The on-going legacy costs associated with operating a defined benefit plan which assumes a lot, but when first established the state did not envision that people would be retired from the state longer than they worked for the state.

Chairman McGee thanked the members of the committee. The size of the committee is small but the impact for the 400,000+ people who are involved with the state's pension and health care plan could be dramatic and important. We want to guard the resources necessary to keep the checks coming to those people who are retired from the state, to pay out the health benefits for those receiving, and to have assets on-hand to take care of the financing of the future costs. Chairman McGee's approach has always been to protect and grow those assets and it will continue to be so. Chairman Folwell mentioned about "crowding out". The increasing costs that the state is incurring to pay out for these benefits are "crowding out" resources that could be used to pay for other programs like education, prisons, etc. The state must be careful how decisions will impact the future. We have continued to read and see many of the things that have taken place in an untoward fashion for those who expect to receive benefits or are receiving benefits and to have these benefits cut and in other service areas. We do not want our state to cut benefits. We have seen where promised benefits continue to take a larger part of the assets available.

Chairman Folwell asked legislators to look at an article in the December 2011 *Governing* magazine entitled "Slaying the OPEB Dragon" (Attachment 1). This is one of the subjects we will cover today about our post retirement obligation. Also, there is an article in the Friday, December 9, 2011 edition of *USA Today* entitled "States Expand Lucrative Pensions to More Jobs" (Attachment 2) that will also be of interest. As co-chair with Representative McGee, there are a couple of things of which we are constantly reminded. The Legislature is constantly criticized for what we do TO people, and never for what the Legislature does FOR people. We would like the emphasis of this committee to focus on outlining what we do FOR state employees and retirees. Also, California and North Carolina are similar in that both have a similar amount of borderline with other states (California has 56-miles more). This is important because when we think about benefit programs, we do not want a barrage of people from Virginia, Tennessee, Georgia and South Carolina to take advantage of the taxpayers of North Carolina because the benefit programs in these bordering states are greatly different. For example, many legislative sessions ago, Chairman McGee was instrumental in getting the vesting years changed for the State Health Plan from 5-years and one day to 20-years. This was important because in Virginia a teacher who retired after 30-years of teaching was allotted \$4.00 per month for every year of service for health care and the retiring teacher paid the remaining difference in the premium. A 65-year old retiree in Tennessee was getting \$1.00 per month for every year of service and the retiree paid the remaining difference in the premium. Every active and non-active employee of the state of South Carolina was paying between \$68-\$86 per month for health care. There were a number of people retiring from bordering states, coming to work for the state of North Carolina for 5-years and one day and getting pensions from the bordering states and health care on the backs of North Carolina taxpayers. The point in telling you this is that we will see an actual number of what the terminated vested, but not yet drawing of people who did that. It accumulates to the billions of dollars.

Chairman Folwell introduced Marshall Barnes with the Fiscal Research Division who made a presentation on Pension Benefits in North Carolina (Attachment 3). Mr. Barnes serves alongside Stanley Moore who was not able to attend today.

Chairman Folwell recognized Representative Moffitt who asked how many people opted to participate in the University Optional Retirement Program vs. the Teachers' and State Employees' Retirement System. Mr. Barnes stated about 13,000. Representative Moffitt asked the "Teachers' and State Employees' Retirement System Contribution History" chart on slide 7 what was the total amount of money that the state was supposed to contribute into the fund during the period 2000-2010, the period the State was contributing less than the normal contribution? Mr. Barnes stated this is related to the funded ratio when it was greater than 100%, so that allowed the General Assembly to not pay the normal contribution rate. The total contribution rate of 7.44% is made up of two pieces that include the normal contribution which covers the cost of benefits that accrue currently, and the accrued liability portion pays off any unfunded accrued liability. Because the system was overfunded in those years, it allowed the General Assembly to not have to pay the normal costs. Representative Collins was recognized and asked if any thought was given as to what people in the investment business call "regression to the mean". As an investment advisor, I am not too concerned about going above what has been set because there will be a downturn in the future. Mr. Barnes stated that the state could have chosen to continue to pay the normal contribution rate during the period 2000-2010, and it would have been overfunding the System because the funded ratio was above 100%.

Chairman McGee asked in regards to retirees, a person who has been retired from the education system for 15 years and is getting the maximum of 54%, how many dollars are they actually getting? Mr. Barnes stated he did not have any information at this time regarding average benefits for a 30-year employee. Mr. Vanderweide interjected that the average is $20,000. Chairman McGee stated that since the inception of the University Optional Retirement Program, what has been the average the state has put in for those plans which were not defined contribution? In other words it cost 6.9% in defined contribution what is the cost of the defined benefit plan. Mr. Barnes stated the average is about 7% so they are close. Chairman McGee stated we have an unfunded liability of $2.8 billion and will that give us an idea of how much we are going to pay in 12 years? Mr. Barnes stated that the current accrued liability contribution is 2.32% percent of payroll so you are paying in currently about $229 million annually from the General Fund to offset that liability and that would continue over the 12-year amortization period. Chairman McGee asked if that would assume the Treasurer earns 7.25%, the interest rate assumption. Mr. Barnes confirmed this.

Representative Collins wanted to confirm he understood the numbers that had been presented. The state is 95% funded, so we are approximately 5% short. For each 1 % the state is short, the state could pay in .5% or $50 million (every 1%=$100 million). If the state wanted to fully fund, we could pay 5% or $500 million one time? Mr. Barnes stated that $500 million would be annually. Representative Collins asked how many years would it take contributing $250 million (.5% x $50million) per year to get caught up? Mr. Barnes stated they would get back with an answer.

Chairman Folwell stated that it is important that when members of the committee are talking with the public that they emphasize North Carolina is not like Wisconsin. Employees in Wisconsin have never contributed toward their pension plan. As you can see from the graph "Teachers' and State Employees' Retirement System Contribution History" chart on slide 7, North Carolina employees have contributed 6% of their salary even when the General Assembly put nothing in. Chairman Folwell stated to the committee that School Superintendent's have

2/3 of their salary comes from the state and 1/3 from the county. Counties have paid their contribution rate off of the state's contribution rate. The School Superintendent's pension will be paid by the state. So when the state did not contribute because pensions were funded over 100%, counties followed suite. The effect of that is an unfunded mandate from the counties back up to the state eventually when the School Superintendent retires. Chairman Folwell followed up on Chairman McGee's question that it is important to realize that a person who retired in 1989 with a $2,000 per month pension from the state, because of cost of living adjustments, that pension currently stands at $3,100 per month. Whereas in states like Wisconsin where people who retired in 1989 with a $2,000 per month pension are still only getting a $2,000 per month benefit. Many of the pensioners from North Carolina come under the Bailey Settlement which means all of their retirement income is free from North Carolina State income taxes. These Bailey Settlement pensioners would have to have been started work before August 1984, been vested by August 12, 1989 which means those people are close to retiring with 30 years of service.

Representative Cleveland asked if the reason we are not fully funded is due to the stock market in the last few years. Mr. Barnes stated that would be partly correct. Representative Cleveland restated his question by asking if the initial problem evolved from the stock market crashing. If the stock market had not crashed, we would not be having this discussion. Tony Solari, NC Department of State Treasurer, said that basically the loss of return on the stock market really got the state into the current situation. Also as staff and Chairman Folwell pointed out, the inconsistent level of contribution by the employer also was a factor. Representative Cleveland stated that that was inexcusable. Chairman Folwell stated that the 9-11 crisis and the fallout in the markets were large contributors. Chairman Folwell cited a recent report that confirmed the need to fund every year. Chairman Folwell stated that he and Chairman McGee and Representative Collins worked on a reform bill this session that dealt with many topics, most of which did not get passed. The only thing that was done on the pension plan in terms of reform this year was changing the vesting period from 5 to 10 years and making it a felony to cash a check from a decedent from the state pension plan where you know the person to be dead. The more complicated subjects like sick leave, banking, spiking did not get passed. Chairman Folwell thanked Mr. Barnes for his presentation.

Chairman Folwell introduced the next presentation by David Vanderweide, Fiscal Research Division, on Retiree Medical Benefits Liabilities (Attachment 4).

Chairman Folwell recognized Representative Collins who wanted to make sure he understood the graph "Funding Projections" on page 10 of the presentation. He asked to confirm that the Annual Required Contribution line is the amount of money the state has to put in to pay for the unfunded liability, i.e. the amount the state will need to have in the bank to pay for what the state has promised every retiree for the rest of their life. Mr. Vanderweide confirmed this. Representative Collins stated that this would not be desirable, but the state does need to catch up. Another issue for Representative Collins is that when state retirees reach Medicare age, they are expected to participate in parts A and B, but not D. He has had a state retiree complain that her prescription costs were a lot higher than her husbands who was on a Part D plan. It would seem that the state would save money and perhaps give state retirees a better benefit by getting out of the prescription drug business. Mr. Vanderweide stated that the State is looking at other options, particularly due to changes that are part of the Affordable Care Act. Mona Moon, State Health Plan, stated that they are looking at the prescription drug plan. Currently as a self funded plan, North Carolina does not participate in Part D. Our retirees are covered for their prescription drug benefits just like all of our members whether active or retired. By doing this, the state receives a subsidy payment from the Federal Government because they are not participating in this Part D plan. What that means is that because there are a variety of Part D plans available to individuals, someone in the individual market may find a benefit that requires that they pay less out pocket than they would if they were in the State Health Plan, while someone else pays more. We are exploring options for Part D as well as other options for Medicare-eligible retirees. There have been changes at the Federal level that may make it more attractive to the State to use alternative plan designs.

Chairman Folwell recognized Representative Cleveland. Can a retired employee participate in the Federal Government's Part D program? Ms. Moon stated that she did not know why they would because they would be paying a monthly premium for that benefit. Her guess is that the premium for that benefit will cost them more than they stand to save. Representative Cleveland again asked can a retired employee participate in the Part D program. Ms. Moon stated she would need to get back to him with an answer.

Representative Collins asked if our retirees can be on a Medicare Advantage plan? Ms. Moon stated that there was no financial incentive to do so, but she would have to check if there was a prohibition against that.

Chairman McGee asked if we extrapolated the lines beyond the years shown on the graph "Funding Projections" on page 10, would the same sort of angle continue or would there be a significant jump. Mr. Vanderweide stated that it would continue to curve upward exponentially.

Chairman Folwell asked what is the percentage of premiums that are going to the State Health Plan that are come from the agencies and not the employees or retirees? Mr. Vanderweide stated that the majority comes from the agencies. For their own coverage, employees are paying approximately 5%, but some choose to cover dependents. Ms. Moon stated the number of non-State contribution premiums is about 16%-17% of our total premiums. Ms. Moon stated she would get the exact number. Chairman Folwell followed up on a question by Representative Collins referencing "Funding Projections" on page 10, anytime that these lines are about to converge it does not come through as an exact appropriation. It comes through as a charge to the agencies for each employee. Mr. Vanderweide stated that that was correct and what the Appropriations Act establishes is a premium that the agency will pay to the State Health Plan to cover one of their employees. That dollar amount is what that agency would see and have to pay each month. In addition the agency would pay a percentage of their active employee compensation into the Retiree Health Benefit Fund that then pays the premiums for retirees. Agencies pay a premium directly to the State Health Plan that is specified in the

Appropriations Act for their active employees and agencies would pay a percentage of their active compensation to fund the general pool of retirees. Chairman Folwell commented that the State has an obligation to pay for health insurance for state employees for the rest of their life, yet the State has never put in reserve funds for this obligation to employees. Mr. Vanderweide said that he did not have the expertise to comment on whether or not an obligation exists and on the strength of any obligation, but confirmed that the state has only put aside a small amount of $655 million which is very small relative to the liability.

Chairman McGee asked in regard to the agency charge, does each agency pay the same percentage? Mr. Vanderweide stated that costs are not differentiated by agency.

Chairman Folwell stated that some of the topics brought up here today whether it has been retirees, Medicare supplement plans, prescriptions, Tri-Care, military retirees, a lot of these things can not be properly instituted unless the State Health Plan is on a calendar year.

Chairman Folwell recognized Mark Bondo with Fiscal Research who gave a presentation on Legacy Costs and Exposure Associated with State Debt (Attachment 5).

Chairman Folwell recognized Chairman McGee who referred to " Deficiencies in State Buildings" on page 15 and asked if the deficiencies in the General Fund Supported Buildings are in excess of the amount that has been appropriated? Mr. Bondo confirmed that it would be in excess. Facilities Condition and Assessments are ideally done on 3-year cycles, so it is possible the General Assembly would have appropriated some money. The last year any new money was appropriated was in 2009. In 2008 the General Assembly appropriated money but it was withdrawn to cover the shortfall for that year. Chairman McGee asked for confirmation that the deficiencies are actually unfunded. Mr. Bondo confirmed this and stated that some are more urgent than others and that the State Construction Office categorizes.

Chairman Folwell referred to "Debt Service History" on page 12, when you look at this as a "debt bomb" for North Carolina, would it be true that in the last decade that debt service as a percentage of our General Fund revenues have doubled? Mr. Bondo confirmed this. It would depend on how one looks at how that debt was funded. Chairman Folwell followed up asking if the doubling that occurred in an historic period of rapidly declining interest rates? Mr. Bondo believes that the source of the doubling relates to the higher education bonds that were issued and were one of the largest bond issuances by the state. Chairman Folwell referring to "Outstanding Debt History" on page 10 asked would the debt outstanding for the state has almost tripled or quadrupled in the last 10-years? Mr. Bondo stated that would be correct.

Chairman McGee stated that the doubling of the debt during a period of time when the cost of doubling had decreased due to lower interest rates.

Representative Cleveland referred to "Types of Debt: Continued" on page 3 and specifically Special Obligation Bonds. He asked if these were bonds limited to the University of North Carolina System. Mr. Bondo stated he was correct. The universities will pledge all of their revenues in order to get a good interest rate or credit rating. For example, they pledge dorm receipts to finance the building of a dorm. In Raleigh, the example is the Talley Center at NC State University. Representative Cleveland followed up that Special Obligation Bonds are financed by student fees. Mr. Bondo stated that could be one source and another source are facilities fees. For example if a grant had an overhead charge for facilities then they could be used to finance. Representative Cleveland stated that facility fees are time limited and not a dependable source of funds. Mr. Bondo stated that it would be contingent on having students come to the university the next year and thereafter. Universities are limited to the amount of debt they can put on themselves by the authorizing legislation. Therefore, there is a limit. Representative Cleveland stated that he has a lot of concerns about universities and Special Obligation Bonds. North Carolina has universities that are charging students' fees that are commensurate with the tuition they are paying to cover these kinds of things. Universities keep raising their fees to keep going into debt. Mr. Bondo stated that this Special Obligation Bonds debt comes before the General Assembly every year. This year it was put into the budget so it was included in the capital section of the budget. The universities do go through the individual schools who normally poll their students and then it goes to the Board of Governors. There is action to stop any proposed increase in fees.

Representative Collins asked if when the Federal Government is downgraded by Standard & Poors, all insurance companies in the nation can not be amore than 2 notches above the Federal Government and is it true that if the Federal Government were downgraded one more notch, that would automatically impact the credit rating of North Carolina. Mr. Bondo said that is uncertain. Rating agencies will not always tell you what they plan to do so as not to influence your actions to try and get a specific rating. For example, the last rating downgrade by Standard & Poors, it downgraded one piece of debt at UNC-Chapel Hill that was an EPA financed building. There were a number of states where some states who were over-reliant on federal funds were placed on a watch list. Mr. Solari confirmed that NC was dependent on federal funds for military bases, but NC was removed from the watch list in the past week. Chairman Folwell wanted confirmation that there is a link between the Federal Government's rating agencies and insurance companies rating agencies. Mr. Solari stated that indeed, insurance companies cannot be rated above the Federal Government, and if the Federal Government were downgraded even the AAA rated states would be downgraded. Representative Collins stated that six or seven local governments in North Carolina were removed from the watch list. Mr. Solari confirmed that as a tribute to how well run our state finances are in terms of debt.

Chairman McGee asked what was the difference in cost to sell the AAA rated GO's vs. the cost to sell AA rated COPS. Mr. Bondo stated that the Treasurer's Office and the Debt Affordability Report usually looks approximately 1% difference. Mr. Bondo will get specific examples. Chairman McGee stated that that was different from what he had been led to believe in the past. Mr. Bondo stated that in actuality that it is less than the 1% forecast. Chairman McGee stated that as we increase the percentage of non-GO indebtedness, we are increasing the cost by a factor (40 basis points, 35 basis points) so the increase in the cost to sell the debt will be reflected in more funds from the General Fund to service.

Chairman Folwell introduced Claire Hester, Fiscal Research Division, for a presentation on Unemployment Debt to Federal Government (Attachment 6).

Chairman Folwell recognized Representative Cleveland who asked how much does the .3% tax rate generate to help pay off the debt? Ms. Hester did not have an answer and will get the information. Representative Cleveland stated he believes it would not be much, and if the state does not come up with the money to pay this debt off over the next 5-years, the employers will be paying an exorbitant amount. Ms. Hester confirmed the rate will keep going up .3% each year until the debt is paid.

Chairman Folwell stated that his staff has been going to the Employment Security Commission each week to learn about this complicated issue which can be traced back to the Nixon administration. For example, the ability for North Carolina to control its own data about our unemployment rate is not done in the state, this information is done federally. Chairman Folwell displayed a credit card that the ESC uses to distribute benefits each week to qualifying individuals. Chairman Folwell stated that it is his understanding North Carolina is a typically a "donor" state and is North Carolina a "donor" state to the Federal Employee Tax Act (FUTA)? Ms. Hester stated she would have to get this information. Chairman Folwell said that he was informed today that North Carolina is a "donor" state. Chairman Folwell then asked are there benefits inside the North Carolina Insurance Benefit law that make North Carolina a more "attractive" place to be unemployed? Ms. Hester said she would have to compare the benefit formula of surrounding states before responding to this question. Chairman Folwell stated that during his office's education visits to the ESC, he has learned that unemployment benefits are awarded to people in North Carolina that are not awarded to people in surrounding states. Ms. Hester stated the Federal Government allows states to broadly administer their programs and how they design them. Ms. Hester stated she would look into this and get back with the committee.

Representative Johnson was recognized and suggested Ms. Hester that if she were to contact a multi-state company, she would discover North Carolina award higher unemployment benefits.

Representative Hamilton was recognized. In Ms. Hester's presentation, she had mentioned that North Carolina was currently ranks 5th in money borrowed from the Federal Government behind California, Michigan, New York and Pennsylvania. Are there any common occupations or industries in these states? Ms. Hester stated that the Department of Labor does provide occupational breakdowns and she would have to investigate this and respond to the committee. Ms. Hester presumes that the common feature is extremely high unemployment in these states.

Representative Collins commented that in another committee, members received information that North Carolina's population is growing, but that our workforce is not growing. What is also increasing is our unemployed population. Is this an issue? Mr. Vanderweide responded that this may be a valid statistic that as our population grows our workforce has to grow commensurate with the population growth in order for our unemployment rate not to increase. North Carolina needs to keep creating jobs in order to offset the initial population.

Representative Hamilton asked if an unemployed person from another state moves to North Carolina, do they receive unemployment benefits from the state from which they worked/moved or from North Carolina. Ms. Hester confirmed that unemployment benefits are based on where the person was working and receiving wages. Chairman Folwell added that North Carolina has spousal transfer out of state employee benefits. This is occurs when a person is who earns wages in North Carolina is transferred out of state and the spouse follows; the spouse is eligible to receive an unemployment benefit from North Carolina because they no longer are employed through no fault of their own.

Chairman Folwell asked if all entities that employ people in North Carolina are paying unemployment tax? Ms. Hester asked for clarification and Chairman Folwell stated that there are exempt groups that do not have to pay unemployment tax such as not-for-profits, school districts, universities, the state of North Carolina, cities and counties. When people from these exempt groups are laid-off, the unemployment insurance is paid by the private industries who have contributed. Ms. Hester stated she would get a list of which types of organizations are exempt for the committee. Chairman Folwell stated that every exempt group had an option to choose Pay-As-You-Go (PAYG) or Annual Required Contribution (ARC). Most exempt entities have chosen PAYG and have not contributed to unemployment benefits. These organizations are now closing their doors and their laid off workers are seeking unemployment benefits.

Chairman Folwell stated that at subsequent meetings, he and Chairman McGee would like to take the individual subjects and investigate possible solutions to the unfunded liabilities. Representative Johnson would like to begin with the subject that most affects jobs in North Carolina. Chairman McGee asked for clarification as to whose jobs she is referring: state employees or private industry. There is difference in cost to the state of North Carolina for their employees vs. those in private industry. Representative Johnson suggested state employees. Chairman Folwell added to Representative Johnson's comments by saying there is a restaurant in Archdale that employs 51 people and had never laid anyone off. The restaurant just received an employment benefit assessment of $19,000 and will have to lay off employees to pay the assessment. Chairman Folwell stated the unemployment benefit assessment is a crisis that will cause small business to close down or lay people off. We do not want to put more policy on the backs of business and cause them to put more into a process that is broken. The State of North Carolina's Employment Security Commission was never designed to fund the potential lay off of a workforce consisting of 4.5 million people. Major changes will have to take place so that this will never happen again. Chairman McGee stated that the Unemployment Debt to the Federal Government will be addressed at the next meeting.

Chairman Folwell asked members of the audience who are stakeholders in the issues discussed in this committee to stand and be recognized. Ellen Hawthorne with Professional Educators of NC and the NC Association of Pharmacists who participate in the State Health Plan was recognized. Bill Roland with the NC Justice Center has an interest in unemployment insurance.

Mr. Roland suggested the committee look at the over $1 billion tax cuts that occurred on the state level over 20 years ago when times were better. Tony Solari with the State Treasurer's Office was recognized and looks forward to working with the committee. Mona Moon with the State Health Plan also commended the committee for undertaking these issues and looks forward to the State Health Plan moving to the State Treasurer's Office in January. This is a perfect time to examine the State Health Plan along with pensions.

There being no further business, the meeting was adjourned.

Respectfully submitted:

Dale Folwell

Representative Dale Folwell, Co-Chairman

Representative William McGee, Co-Chairman

Susan Whitehead

Susan H. Whitehead, Committee Clerk

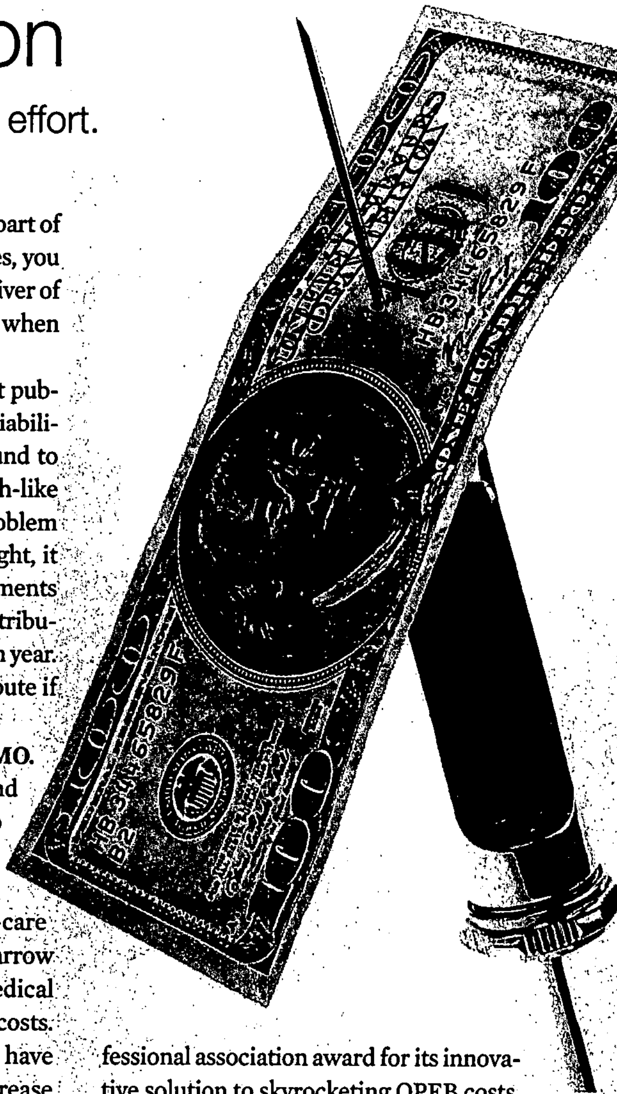
Jayne A. Nelson, Committee Clerk

ATT#1 12-13-11

By Girard Miller

Slaying the OPEB Dragon

Retiree medical costs can be tamed, but it requires effort.



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There's a crisis in retiree health-care funding, and it continues to get worse for state and local employers. It's one thing to pay this year's premiums, but it's even harder to come up with the money for the future costs of the benefits now promised to today's employees—not with the costs of health insurance outpacing state and local revenues and the general inflation rate.

As other post-employment benefits (OPEB) liabilities keep piling up, public leaders are grasping for solutions. Several states have taken action. Some of the moves are obvious and well-accepted as the new norm; others are at the cutting edge of innovation. Not every city or state approach is replicable elsewhere—state laws may preclude action and some solutions might not be viable for other reasons. But here's a summary of some of the current approaches to the OPEB crisis and how they are working out:

Change the plan for new hires. The easiest long-term reform for retirement benefits is to reduce them for new employees. Unfortunately that won't save much money for years to come, but it's a start. With private-sector employers rapidly abandoning retiree medical benefits, there is little competitive pressure to maintain traditional OPEB plans. A modest defined contribution plan for retirement health savings is usually all the market requires. Some employers are providing employee-only coverage for new hires.

Cap the benefit. With medical costs outstripping general inflation by two or three times each year, the biggest move employers can make is to put a dollar ceiling on the benefit and index it to the CPI. This single action has huge actuarial cost-reducing benefits.

Require employee contributions. Most public employees, especially the older ones, know the value of their OPEB benefits. It's only fair that they pay part of the costs. If you are freezing salaries, you can't ask for much, but a symbolic sliver of cost-sharing can be expanded later when the economy gets better.

Fund the plan actuarially. Most public employers with massive OPEB liabilities have not even set up a trust fund to pre-fund the benefits. This ostrich-like behavior guarantees that the problem will worsen. Even if budgets are tight, it makes sense to make partial payments toward the actuarially required contributions and then "ramp up" a little each year. Employees can't be asked to contribute if there's no trust fund in place.

Install a "narrow network" HMO. Along with higher deductibles and co-pays, which everybody seems to be doing this year, many employers have also installed a narrow-network HMO as the primary health-care benefit for their employees. Narrow networks exclude high-cost medical providers and thus cut premium costs. Almost half of private employers have gone this route, a 200 percent increase in just a few years. This can then become the basis for the retirees' OPEB benefit as well, which can cut costs by 25 percent in some locations.

Sell bonds to fund one-third of OPEB liabilities. Nobody can tell for sure whether the stock market's latest swoon was a bottom, but interest rates are now near their lowest levels in a century. That enables some public employers to sell taxable municipal bonds for as much as a third of the total OPEB plan liability, and invest the money in the stock market at depressed levels. For more on this strategy and pitfalls to avoid, see my article, *Benefits Bonds Revisited*, in the Public Money section on Governing.com.

Buy out the benefits. Beverly Hills, Calif., won national attention and a professional association award for its innovative solution to skyrocketing OPEB costs. The big idea: Get out of the business of guaranteeing retiree medical benefits the city can't afford. First, the city set up a defined-contribution OPEB plan for new employees. Then it sold a bond issue at 4.5 percent and used the money to fund a voluntary exchange program in which current employees could cash out the actuarial value of their previously earned OPEB benefits and receive an employee health savings account plus a package of cash and deferred compensation. More than half of the eligible employees made this election, which will save the city millions of dollars. It's been so popular that employees who didn't take the original deal now want in. **G**

Email millerg@pfm.com

ATT #2 12-13-11

States expand lucrative pensions to more jobs

By Thomas Frank, USA TODAY

12/9/11

Special retirement benefits once reserved for police, firefighters and others with dangerous jobs are now being given to tens of thousands of state workers employed as park rangers, foresters, dispatchers, coroners, even highway laborers, museum guards and lifeguards.

The trend will add heavily to the $70 billion that state taxpayers owe state retirement funds each year and is costing states such as Florida and Maryland $15 million to $30 million annually, a USA TODAY analysis shows.

Thirty-one states have passed laws since 2000 that expand the range of workers who can retire when they turn 50 or 55 or after working 20 or 25 years, then collect special pensions that will pay some an extra $1 million or more in retirement. The pensions are enhanced because they are usually based on a higher percentage of a worker's salary than pensions for ordinary state workers.

MORE: States that enacted new pension laws
INTERACTIVE: How state lawmakers pump up pensions
STORY: How state lawmakers pump up pensions in ways you can't

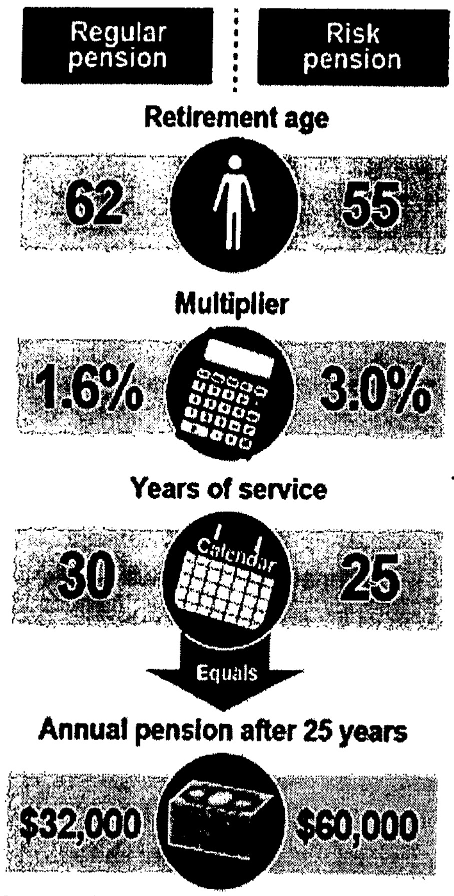
"There's been a massive increase in the scope of who qualifies for (early) retirement benefits," said William Eggers, public-sector research director at Deloitte consultants. "They're supposed to be for people who are getting shot at and running into buildings that are on fire."

In Illinois, where highway maintenance workers earn up to $148,000 a year with overtime, early enhanced retirement can pay a $75,000-a-year pension at age 50 after 25 years on the job. That adds up to $2.2 million if the retiree lives to age 80 — or $1.2 million more than if the person had been in the state's regular retirement plan. A 25-year Florida crime lab analyst can get a $60,000 pension at age 50 and collect $1.8 million by age 80, compared with $575,000 if the person was not in the state's "special-risk class."

People in dangerous public safety jobs have long had enhanced early retirement to encourage them to make way for younger workers as their physical abilities decline, and to compensate them for lasting physical and mental damage.

A tale of two pension plans

Here is the pension that a senior crime lab analyst in Florida, making an annual salary of $80,000, will collect as a "special-risk" worker, and the pension the analyst would collect if classified as a regular worker.



Source: USA TODAY research
By Janet Loehrke, USA TODAY

Over the years, other state workers have lobbied elected officials heavily to be included to those plans, or have won the benefits via labor negotiations, arguing that they have similar responsibilities and stress as police. The plans now include livestock inspectors, lottery agents, electricians, elevator repairmen, coroners, sewer workers, magistrates, motor-vehicle inspectors, airplane pilots and union executive directors. Wildlife officers have early retirement in 25 states and liquor-control agents have it in 15 states.

"Everybody wants to be in our special plan," said Christine Gianopoulos, deputy executive director of Maine's retirement system. The Maine "1998 Special Plan" provides early retirement for 15% of state workers, including fisheries and wildlife officers, airplane pilots, liquor inspectors, and oil and hazardous materials emergency response workers.

Taxpayers bear added cost

Early retirement is usually far more costly to taxpayers because retirees collect a pension for additional years and are not paying into the state pension system as full-time workers.

"You could easily end up spending more on public-safety workers while they're retired than when they're working," said North Carolina State University retirement expert Robert Clark, author of *A History of Public Sector Pensions in the United States.* "If these folks are starting work in their 20s, they are eligible to retire in their late 40s, early 50s and get a pension and health insurance for the rest of their life."

The growth of early retirement has helped fuel massive deficits in some of the nation's largest public pension plans, including the main California and Florida retirement systems.

The deficits led 36 states in the past two years to take cost-control steps such as requiring workers to pay more toward their pension or delaying when they can retire, said Ron Snell, a pension expert at the National Conference of State Legislatures. "This is unprecedented," he said.

Enhanced early retirements are "one of the biggest cost drivers" in state pension plans, Eggers of Deloitte said.

'A ticking time bomb'

Florida exemplifies the cost. Elected officials have expanded the state retirement system's "special risk class" five times since the 1990s, adding prison medical workers, paramedics and forensic specialists. "Special risk" workers retire five to seven years earlier than regular workers and get a lifetime pension after 20 years on the job equal to 60% of their salary. A regular worker retiring after 20 years gets a pension equal to 32% of his or her salary.

The additions helped boost the special-risk class to 75,135 workers from 48,188 in 1993, and spike taxpayers' bill for special-risk pensions to $903 million this year, state records show. That's more than double the $383 million cost in 1993. Meanwhile, the number of workers in the "regular" retirement plan has increased only slightly and the cost to taxpayers rose to $2.4 billion from $2.1 billion in 1993.

"Our workforce is shifting into special risk. That's a ticking time bomb," said former Florida state Rep. Juan Zapata, a Republican who sought to restrict entry into the special-risk class. "It has been morphed into something that was not its original intention — into this system that everybody tries to justify being in."

Pumped up pensions

Police officers and firefighters have long qualified for early retirement and higher pensions, but thousands now get similar perks.

- Corrections officer
- Probation officer
- Park ranger
- Game Warden
- Highway worker
- Electrician
- Forester
- Fire watcher
- Lottery agent
- Livestock inspector
- Liquor-control officer
- Crime-lab technician
- Campus police
- Prison chaplain

In 10 other states where lawmakers have expanded early retirement eligibility since 2000, the number of workers in those plans increased by twice as much as the increase in workers in regular retirement plans. The states are Arizona, California, Iowa, Maryland, Minnesota, Montana, New Mexico, South Carolina, Vermont and West Virginia.

In California, the number of workers eligible for enhanced or early retirement jumped to 77,394 from 59,685 in 2000, while the number of workers in regular retirement plans fell to 170,942 from 175,495, state records show. Enhanced early retirement plans cost taxpayers $1.5 billion this year, up from $385 million in 2000, state records show. That cost is only slightly lower than the $1.8 billion cost of regular retirement this year, even though the regular retirement plans have more than twice as many workers.

Florida state Sen. Mike Fasano co-sponsored a measure in 2005 that shifted 386 forensic specialists into the special-risk class after the specialists asked for his help. Their jobs seemed worthy of enhanced early retirement because the workers "show up to very horrific crime

- Airplane pilot
- Museum guard
- Tax investigator
- Hospital security
- Paramedic
- Constable
- Lifeguard
- Coroner
- Magistrate
- Steam engineer
- Probate judge
- Motor-vehicle inspector
- Parole-board member
- Elevator maintenance worker
- Forestry engineer
- Prosecutor
- Public defender
- Forensic analyst
- Lifeguard
- Sewer worker

Source: USA TODAY research

scenes at times" and must prepare evidence to help prosecutions, said Fasano, a Republican.

A 2005 legislative report on Fasano's bill reached a different conclusion, saying that unlike other special-risk workers whose physical skills deteriorate with age, forensic specialists "have their skills increase over time since forensic science is an academic discipline."

Special-interest group pressure

Florida addressed its pension shortfall with a law this year requiring all employees in the state pension system to pay 3% of their salary toward their retirement, the first time the workers have had to contribute. Zapata sought in 2010 to shift thousands of workers from the special-risk class to the regular class, but quickly withdrew his bill after getting threatening phone calls. "You try to explain, look, what's happening here is unsustainable," said Zapata, who retired last year due to term limits. "Unfortunately, the conversation didn't go too far because the (state-worker) unions did a great job of shutting everything down."

Many employee groups and unions have made enhanced early retirement a major goal, particularly as states have faced growing budget deficits that make salary increases unattainable. Unlike salary hikes, the added cost of enhanced early retirement is spread over decades, and can be ignored in some years if state officials simply decide to pay less into a retirement fund than their financial analysts urge.

"It's really a lovely way for states to give employees something they could pretend isn't costing anything," said Richard Greene, a New York City government-finance consultant. "There's a domino effect because one group may get included (in a public-safety pension plan) and that leads another group to want it as well. Politically once one group is included, it's then hard to say no to the second."

In Illinois, roughly 1,000 office workers at corrections department headquarters can get enhanced early retirement because of a state law that gives the benefit to any department worker "who has daily contact with inmates." The office workers successfully argued years ago that they had daily contact with inmates who did maintenance work at the headquarters building, said Tim Blair, executive secretary of the state retirement systems.

"It's mind-boggling to me now that they included all of them," Blair said. A 2005 law barred newly hired clerks from getting early retirement.

Maryland officials have enacted 14 laws since 1996 adding 1,500 state workers to early-retirement pension systems, including campus police, airport rescue workers and 650 laundry, dietary, maintenance and supply workers in state prisons. The laws will cost taxpayers roughly $16 million this year, according to estimates by the state legislature.

Maryland state Sen. James DeGrange, a Democrat, heard from prison laundry workers in 2008, two years after the Legislature moved prison dietary, maintenance and supply workers from a regular state pension system into a special early retirement system created for corrections officers. "They said they're having to do the same thing in many regards as corrections officers, supervising inmates," DeGrange said in a recent interview. His bill passed both legislative chambers with only one "no" vote.

Criteria vary by state

Like many states, Maryland has no standards or system for determining whether a worker should be eligible for early retirement.

DeGrange said Maryland's prison workers deserve early retirement "because of the stressfulness of the position." Maryland law says nothing about workers with stressful jobs being eligible for early retirement.

Some states list job conditions that make workers eligible for enhanced early retirement. Minnesota requires that prison workers spend 75% of their time in dealing with inmates to get enhanced early retirement, which has given priority pensions to hundreds of employees such as psychologists and cooks.

New Jersey law limits early retirement to state troopers and to state and local workers meeting a strict definition of "policeman" or "fireman." The state pension board has used the criteria to deny 60 job titles inclusion in the state Police and Fireman's Retirement System, including positions that are routinely eligible for early retirement in other states, such as prison administrators, fire marshals and arson investigators.

Without standards for determining who should get early retirement, state officials often make political decisions based on the ability of employee groups to persuade legislators and governors, said William Eggers, the Deloitte researcher. "This is the kind of thing that should be done in an objective way based on objective criteria," he said.

In 2007, the Virginia Sheriffs' Association decided that improving pensions for the state's deputy sheriffs was "our top priority," association executive director John Jones said recently. Before 2007, the Virginia Legislature had repeatedly defeated measures that would have made deputy sheriffs equal to state police, who can retire five years earlier than other state workers and get $12,000 added to their pension each year they are retired until they reach their mid-60s.

2007 was an election year for legislators, and the association intensified its lobbying. "The law-enforcement community got together and said, This is the one thing we want," said former senator Kenneth Stolle, who sponsored the 2007 measure and similar bills in earlier years. "Everybody wants the law-enforcement community to stand by them when they're running for election."

Stolle, a Republican and former police officer, was a sheriffs' association favorite, collecting $23,190 in gifts from 2004 to 2008, including five hunting trips (to Canada, Texas and South Carolina) and other trips to New York City and Key West, and 10 restaurant dinners, state records show. The gifts were irrelevant to his sponsorship, said Stolle, who left the state Legislature at the end of 2009 when he was elected sheriff of Virginia Beach, noting he had long supported law-enforcement on many issues.

Roughly 3,600 deputy sheriffs benefit from the new law, Jones said. "It's a tremendous benefit. It's an equality issue," Jones said. "Deputy sheriffs don't make a lot of money, so the only thing they could get is (better) retirement."

Deciding who qualifies

The expansion of enhanced early retirement reflects a growing sentiment that the benefit should be given to workers based on their responsibilities and qualifications, not on the danger and physical demands. South Dakota added conservation officers, park rangers and campus security officers in the 1990s.

"We saw public safety as being broader than just being a policeman, fireman or corrections officer," said South Dakota retirement system administrator Rob Wylie. "Many of the people that work in public safety aren't necessarily in the traditional spots you think of."

Some state officials acknowledge the difficulty deciding which workers deserve enhanced early retirement. When the Louisiana Legislature added six groups of workers to its "hazardous-duty" retirement plan last year, legislators set an unofficial requirement that a worker be a law-enforcement officer to qualify, said House Speaker Pro Tem Joel Robideaux, a Republican. "If you're requiring an employee to be able to handle a firearm and go through all that training, we felt like that was probably the best litmus test that there's a certain amount of danger in the job that doesn't exist in other jobs," he said.

But, Robideaux added, "We know that's not true. There are some places where teachers are more in harm's way than some university policemen. But we had to figure out a way to discern between hazardous duty and non-hazardous duty, and that seemed to be the most logical."

ATT #3 12-13-11

Pension Benefits Discussion

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and Employment Security Commission

December 13, 2011

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Major Benefit Programs

- Teachers' and State Employees' Retirement System
  - Active Members: 426,832
  - Retired Members: 163,938
- Local Governmental Employees' Retirement System
  - Active Members: 163,662
  - Retired Members: 49,204
- Consolidated Judicial Retirement System
  - Active Members: 614
  - Retired Members: 543
- Legislative Retirement System & Legislative Fund
  - Active Members: 246
  - Retired Members: 258

Other Benefit Programs

- Firemen's and Rescue Squad Workers' Pension Fund
- National Guard Pension Plan
- Register of Deeds Supplemental Pension Plan
- Disability Income Plan of North Carolina
- Death Benefit Trust

Defined Contribution Plans

- University Optional Retirement Program
- Supplemental Retirement Income Plan -NC 401(k)
- NC Deferred Compensation Plan - 457

Teachers' and State Employees' Retirement System Defined Benefit - formula

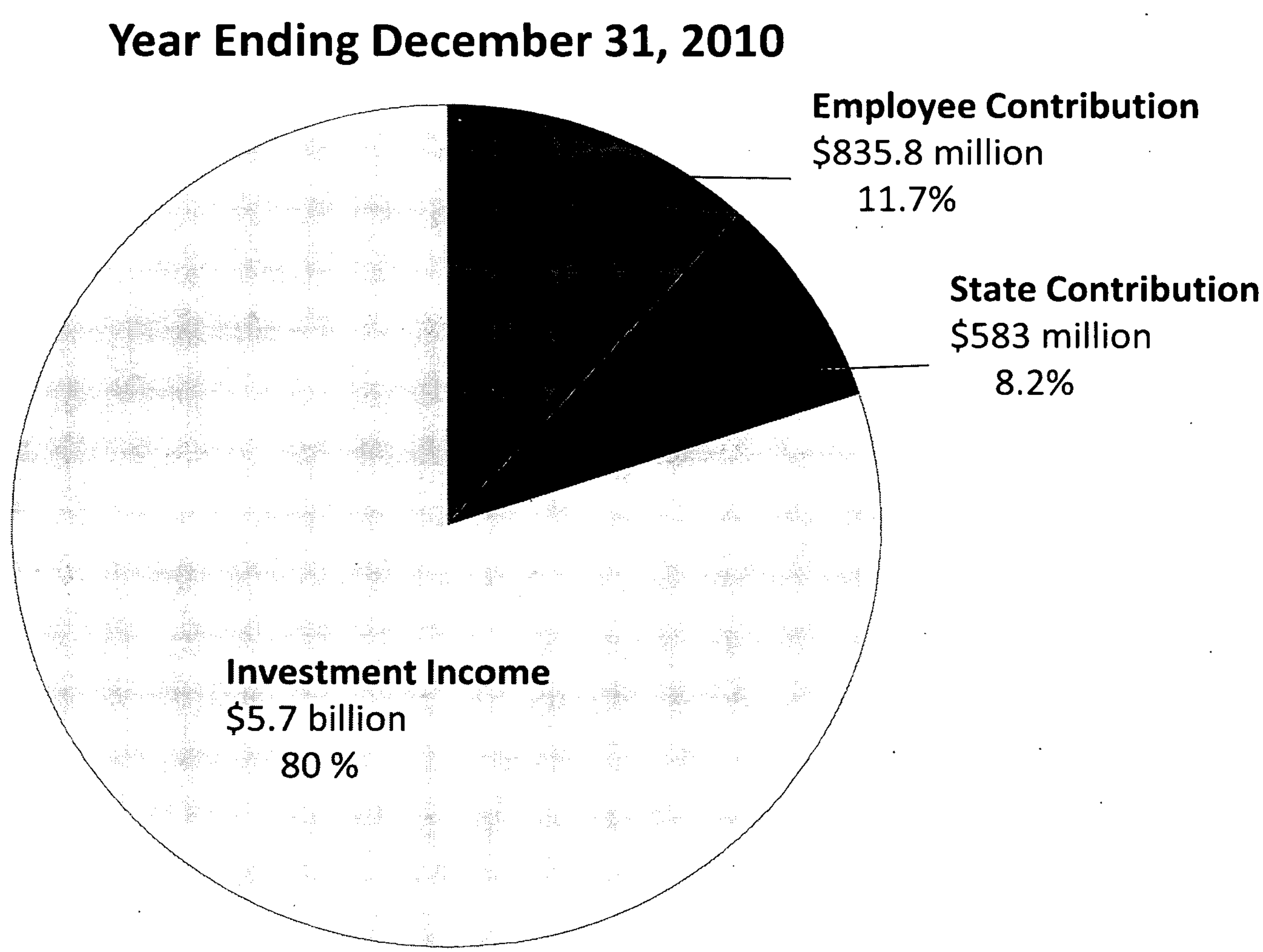
- Years of Service x Average Final Compensation (48 highest consecutive months salary) x Accrual Factor (1.82%) = Annual Benefit Amount

- Annual pension benefits equal approximately 54% of Average Final Compensation with 30 years of service.

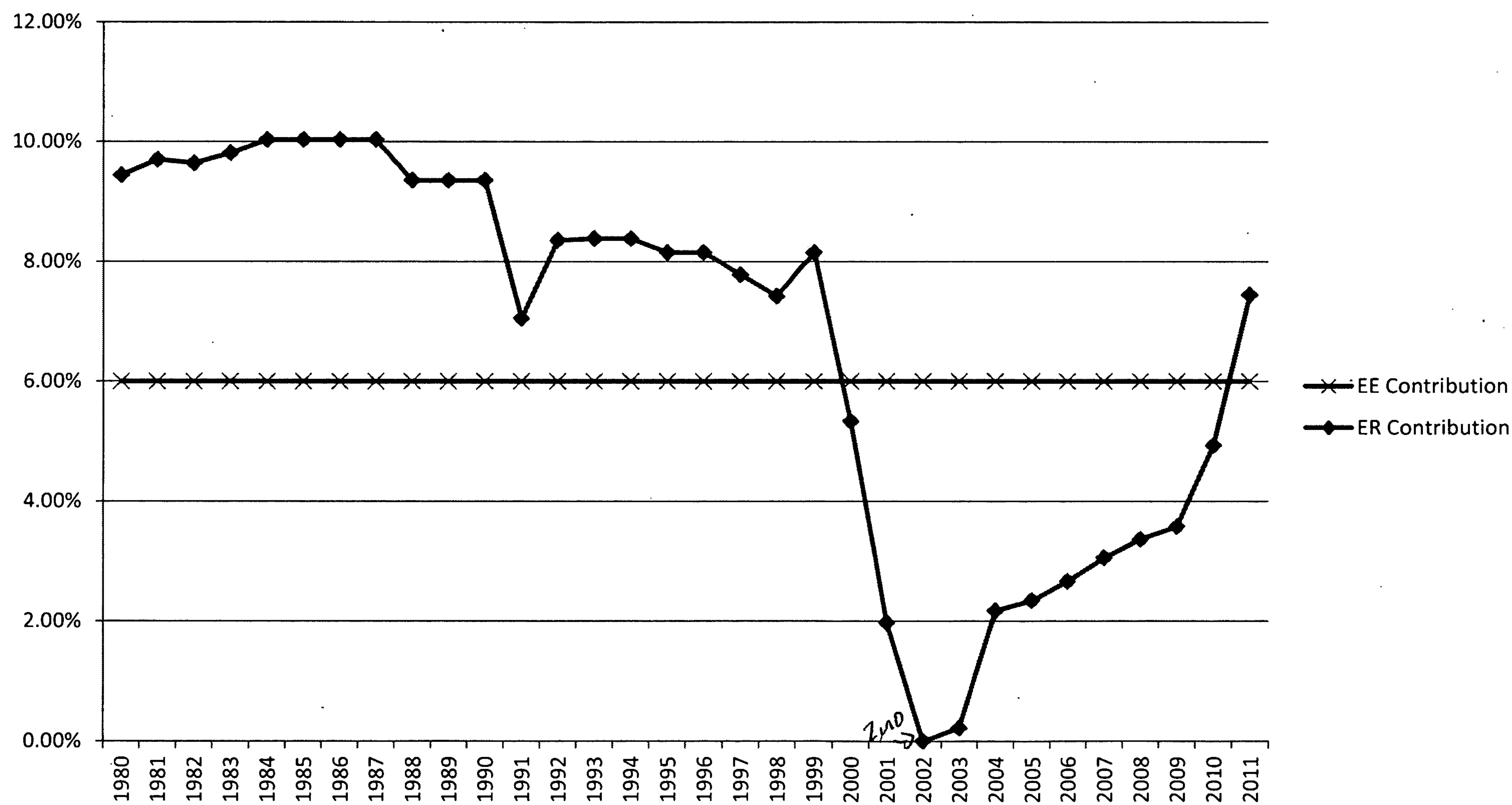
Teachers' and State Employees' Retirement System
Sources of Funding

- Active Employees contribute 6% of salary
- Employers contribute annually based upon recommendations of the System's actuary and funding appropriated by the General Assembly
  - 7.44% for FY 2011-12 and 8.33% budgeted for FY 2012-13
- Investment income

Teachers' and State Employees' Retirement System Sources of Funding

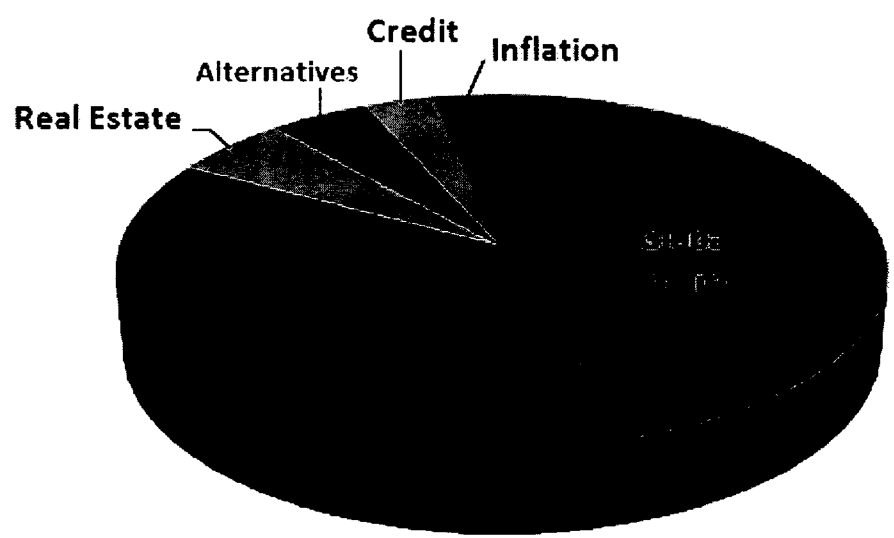


Teachers' and State Employees' Retirement System Contribution History



Teachers' and State Employees' Retirement System
Asset Allocation
June 30, 2011

	Current %	Policy %
Global Equity	45.25%	40.5%
Fixed Income	37.76%	38.0%
Real Estate	5.63%	8.0%
Alternatives	4.82%	4.5%
Credit	3.34%	4.5%
Inflation	3.20%	4.5%

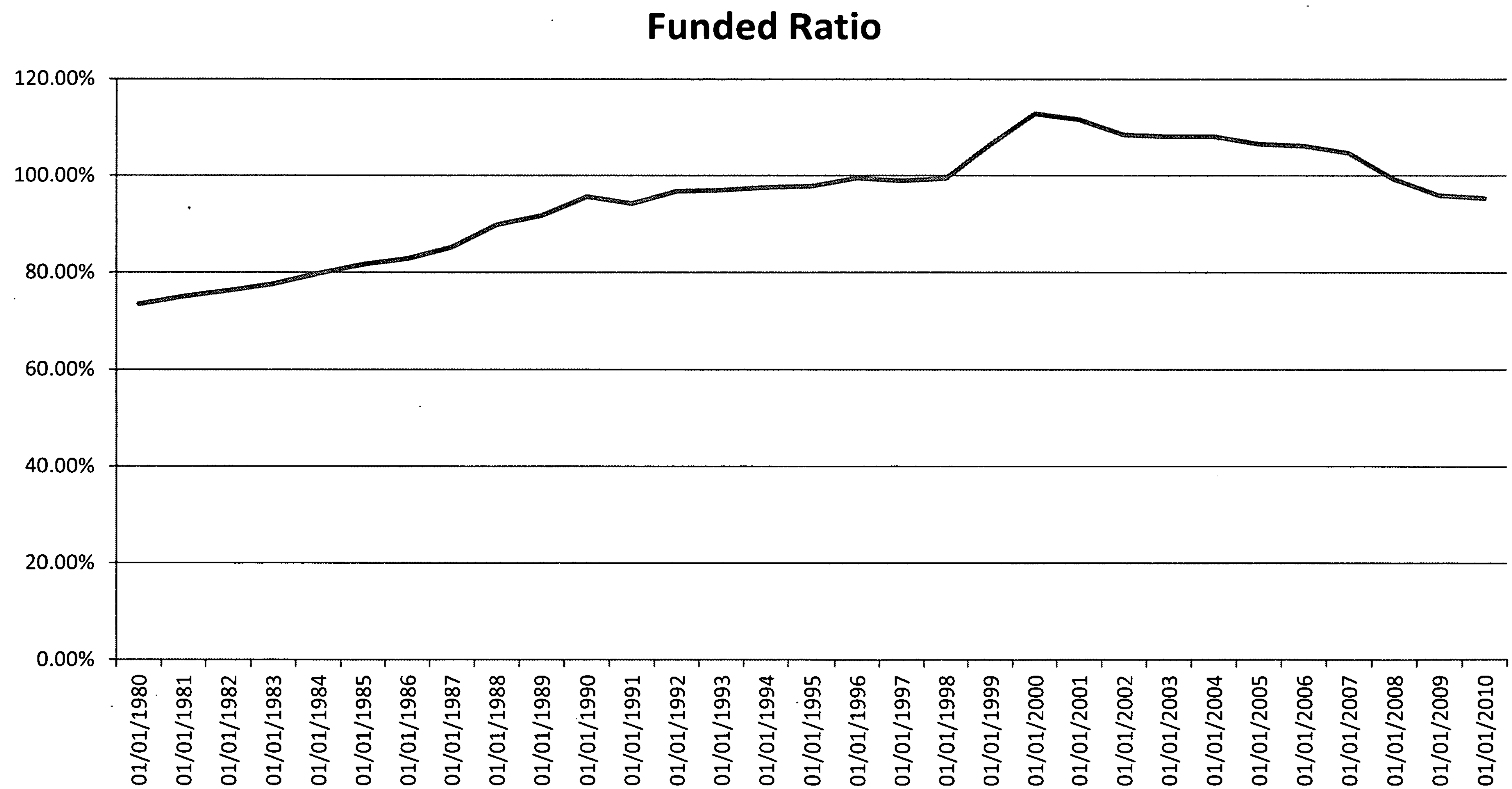


Teachers' and State Employees' Retirement System
Funded Ratio

$$\text{Funded ratio} = \frac{\text{assets}}{\text{liabilities}}$$

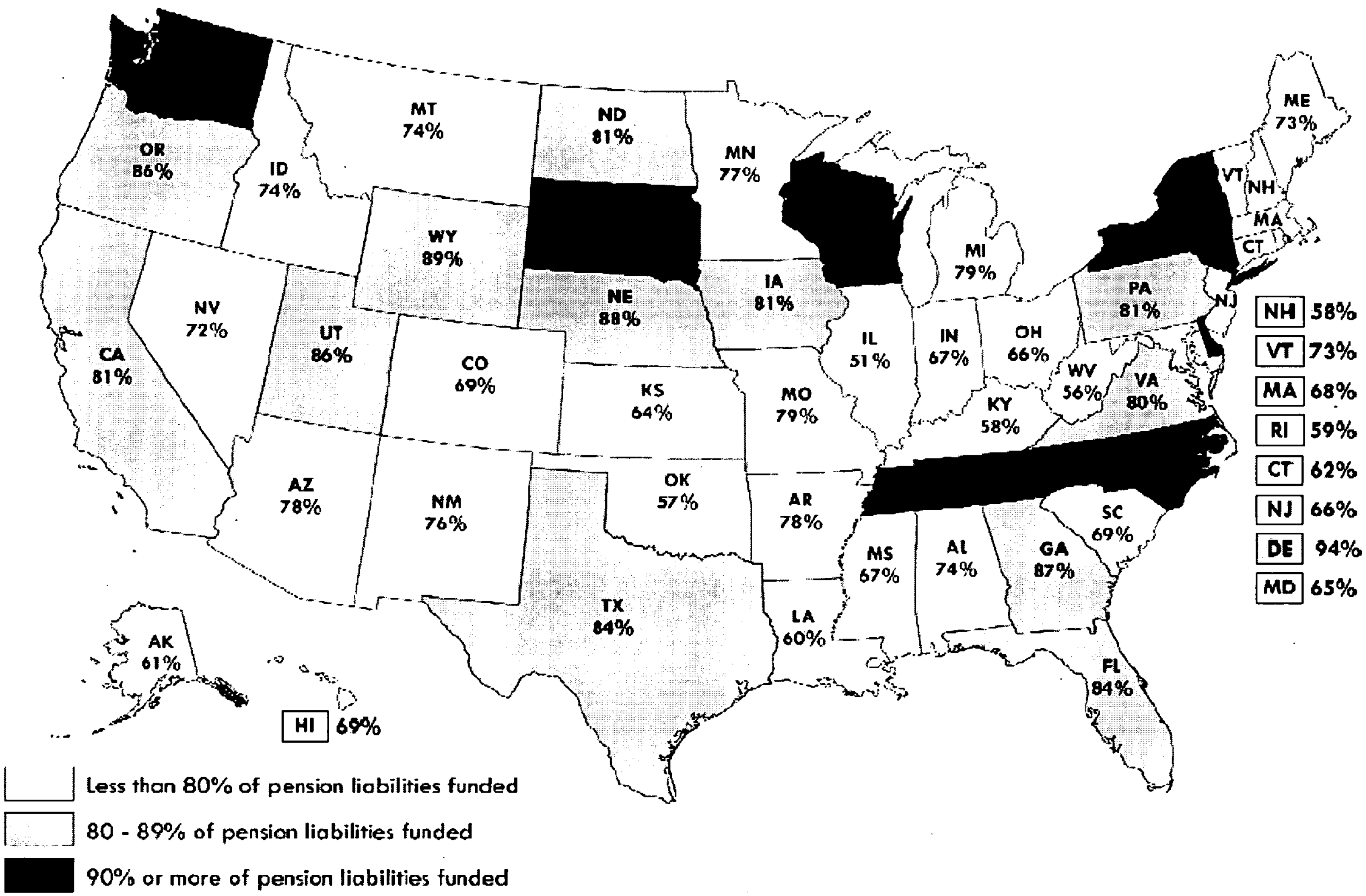
- Indicates the percentage of accrued benefits that are covered by current assets.
- 95.4% funded as of December 31, 2010
- Unfunded accrued liability totaled $2.8 billion as of December 31, 2011

Teachers' and State Employees' Retirement System Funded Ratio History



Teachers' and State Employees' Retirement System Funded Ratio Comparison

Data as of December 31, 2009



Source: Program Evaluation Division based on a map appearing in the Pew Center on the States's 2011 report entitled "The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs."

Teachers' and State Employees' Retirement System Funded Ratio

- Each 1% drop in the funded ratio equates to a .5% increase in the employer contribution rate.
- Each .5% increase in the employer contribution rate would cost the General Fund approximately $50 million annually.

Contact Information

Marshall Barnes

Fiscal Research Division

Room 203D

Legislative Office Building

919-733-4910

Marshall.barnes@ncleg.net

ATT#4 12-13-11

Long-term Liabilities for Retired Employee Health Benefits

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and ESC

December 13, 2011

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Outline of Presentation

1) Benefits Overview

2) Financial Status

3) Funding Projections

4) Comparison to Other Employers

Benefits Overview

- Most retired State employees pay premiums of $0 to $22 per month to participate in the State Health Plan *

- Retiree's portion of the premium represents at most 5% of the total premium paid by the State and the retiree

- Retiree pays the full stated premium for dependent coverage if retiree elects to cover dependents

* Those hired on or after October 1, 2006 will pay a much larger premium if they retire with less than 20 years of service, but they constitute a small fraction of current retirees.

Benefits Overview

- When the retiree becomes eligible for Medicare, the State Health Plan coverage becomes secondary and the retiree is expected to enroll in Medicare Parts A and B, but not D

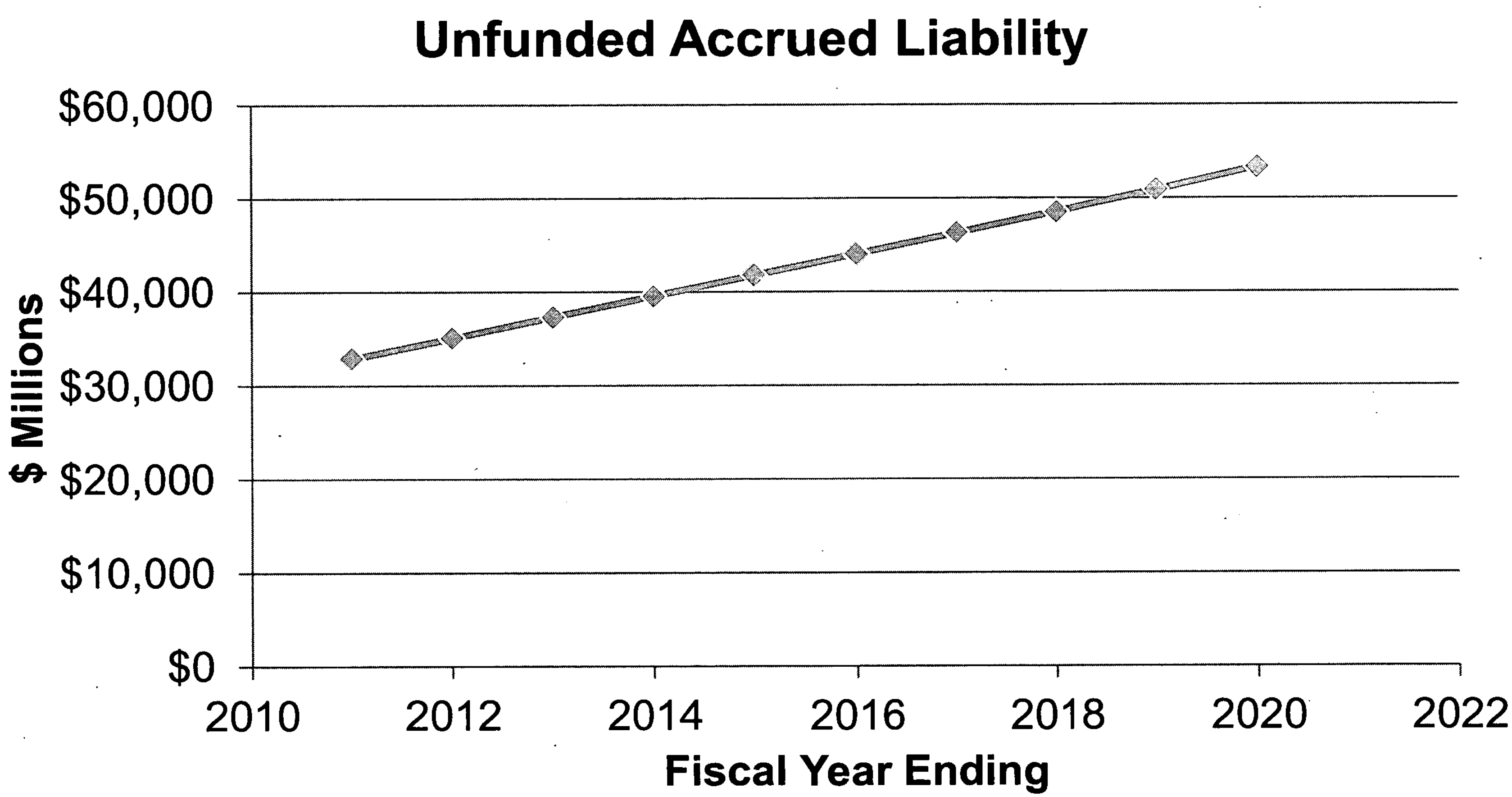
- Services covered and network of providers are comparable to those in plans typically provided to active employees by large public and private employers

- Out-of-pocket requirements are somewhat higher than average among large employers

Financial Status

Measure	Value at Dec 31, 2010
Accrued Liability for Active Employees (pro-rated share of total value of future benefits)	$18,112 Million
Accrued Liability for Retired and Inactive Employees	$15,382 Million
Total Accrued Liability	$33,495 Million
Assets	- $655 Million
Unfunded Liability	$32,839 Million

Financial Status



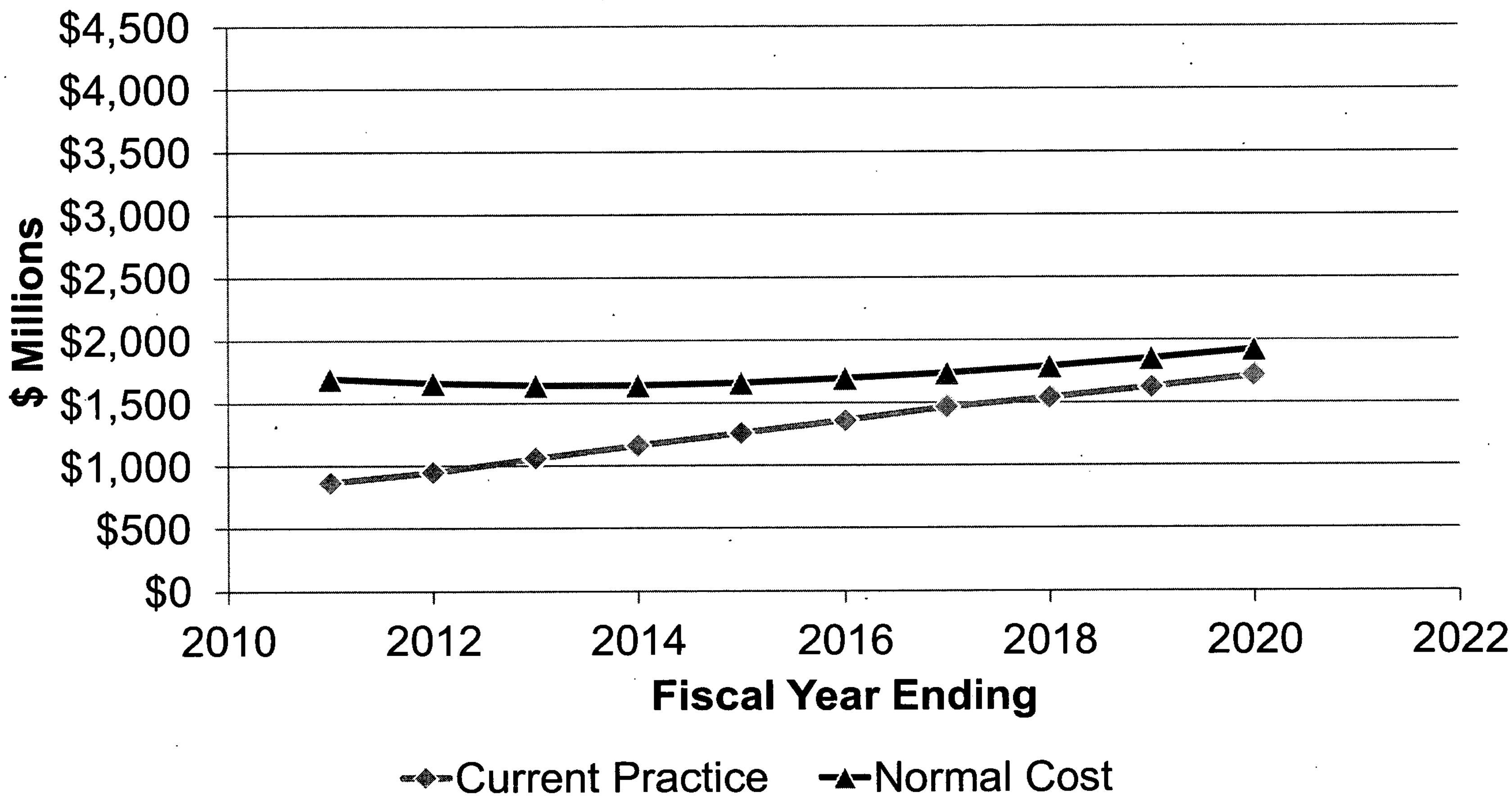
Assumes current contribution practice and benefits package.

Funding Projections

Current contribution practice:

- **Current contribution for retiree medical benefits is set in the Appropriations Act**
- **Usually enough to pay claims and administrative expenses for current retirees plus a small cushion**

Funding Projections

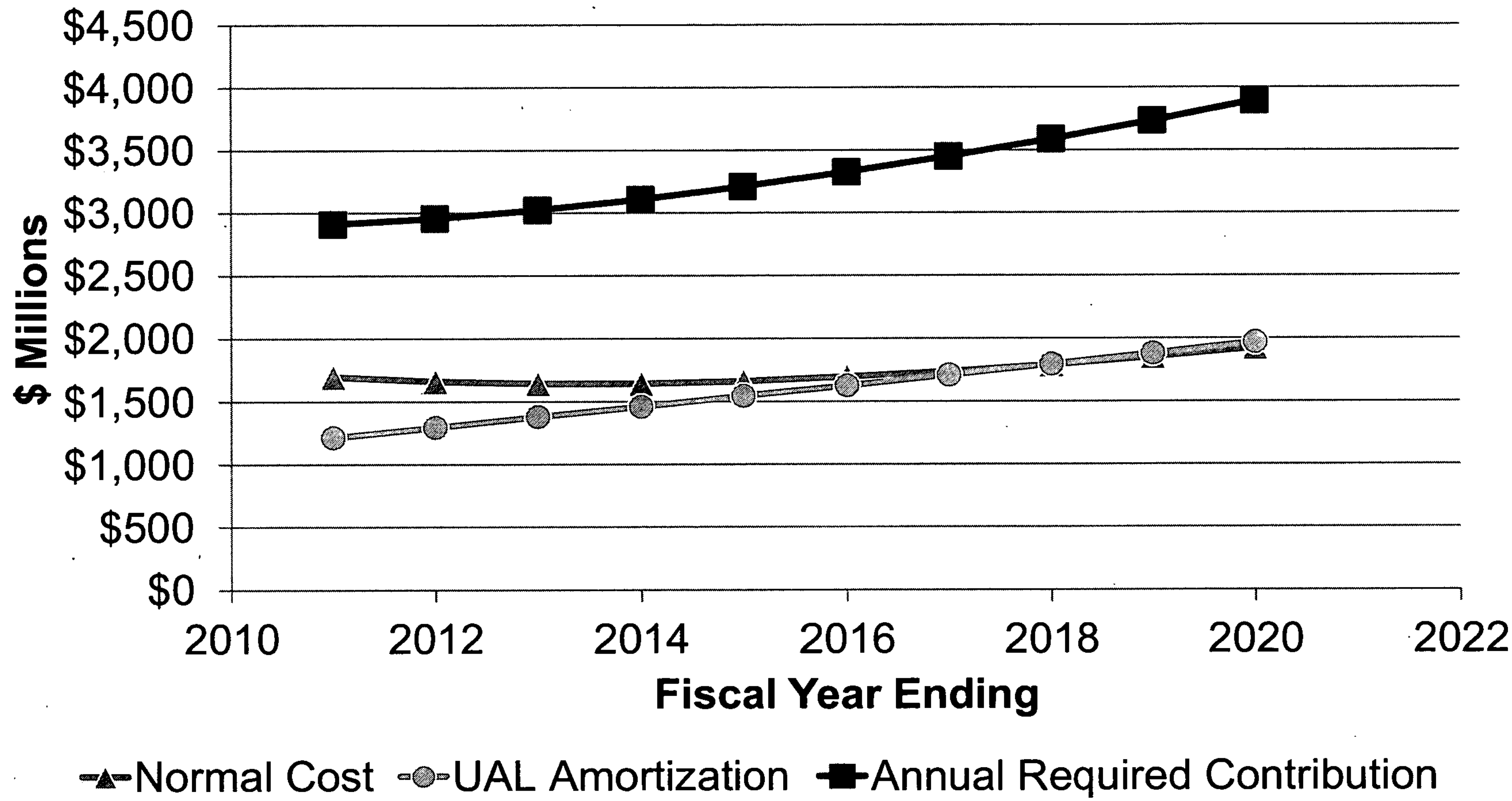


Funding Projections

Annual Required Contribution:

- **Amount calculated by actuary under government accounting standards (GASB 43/45)**
- **Sum of:**
  - **Normal Cost: amount to pay for benefits accrued in current year by active employees**
  - **Amortization of Unfunded Liability: amount to pay off unfunded liability over 30 years**

Funding Projections



Annual Required Contribution assumes current contribution practice and benefits package.

Comparison to Other Employers

Other States

- All 50 states offer retiree medical benefits to at least some employees
- Differences are mostly in:
  - Who is eligible
  - How coverage changes upon Medicare eligibility
  - Share of premium paid by retiree
- N.C.'s per capita unfunded liability is 9th highest in the U.S.
- About 70% of states require more than a nominal premium from the retiree
- Few states have set aside significant assets to pay future benefits

Comparison to Other Employers

Neighboring States - Examples

- South Carolina:
  - Retirees hired before 2008 are eligible for full employer subsidy with 10 years of service.
  - Employee-only premium is $9 per month in S.C.'s Savings Plan and $93 per month in S.C.'s Standard Plan.
  - Per capita unfunded accrued liability is only slightly smaller than N.C.'s.

- Virginia:
  - State provides premium subsidy of $4 per month per year of service, retiree pays the remainder of the premium.
  - Per capita unfunded accrued liability is less than 10% of N.C.'s.

Comparison to Other Employers

Private Sector

- In 2010, 28% of large firms and 3% of small firms that offered medical benefits to employees also offered them to retirees
- In 1988, 66% of large firms offered retiree medical benefits
- Of those that do offer retiree medical, over 40% require retiree to pay the full premium. Another 30% have capped employer contribution at a fixed dollar amount.
- Number of employers offering retiree medical may decline further in 2014 if everyone is guaranteed access to coverage through exchanges, although some might still provide credits to purchase insurance
- Few companies have set aside significant assets to pay future benefits

Fiscal Research Division Contact

David Vanderweide
Fiscal Research Division
Suites 203 and 619
Legislative Office Building
919-733-4910
david.vanderweide@ncleg.net
www.ncleg.net/fiscalresearch

ATT# 5 12-13-11

State Debt

House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC

December 13, 2011

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Types of State Debt

- General Obligation Debt:
  - Secured by the faith and credit of the State
  - Requires the approval of the majority of the Voters
- Two Thirds/Legislative Bonds
  - Secured by the faith and credit of the State
  - Voter approval is not necessary
  - Limited to the amount of indebtedness reduced during previous biennium

Types of Debt: Continued

- Revenue Bonds:
  - Backed by revenues generally tied to the project being financed
- Special Obligation Bonds:
  - Backed by various agency revenues
  - Limited to the University of North Carolina System

Types of Debt: Continued

- Special Indebtedness (COPS)
  - Backed by pledge of appropriation
  - Item being financed may be pledged as security
  - Statutory framework enacted in 2003

Debt Management

- Debt Affordability Advisory Committee
  - Created in 2004
  - Advise the State regarding prudent debt levels
  - Chaired by the State Treasurer
  - Other Committee Members include: State Auditor, Sec. of Revenue, State Budget Officer, State Controller, Two Senate Appointees, Two House Appointees

Debt Management Continued:

- 2011 DAAC Recommendations:
  - Structural budget balance
  - Net Tax-Supported Debt should be targeted at no more than 4.0% of General Tax Revenues and should not exceed 4.75%.
  - General obligation debt should be the preferred method of debt financing
  - Centralized debt authorization authority
  - Other liabilities

Debt Management: Continued

- Credit Rating:
  - Aaa (Moody's), AAA (S&P), AAA (Fitch)
- Payout Ratio:
  - Ten year pay out ratio of 59% at June 30, 2010
- Limited Variable Rate Debt:
  - $355 million
- Debt Level:
  - Moderate (Moody's)

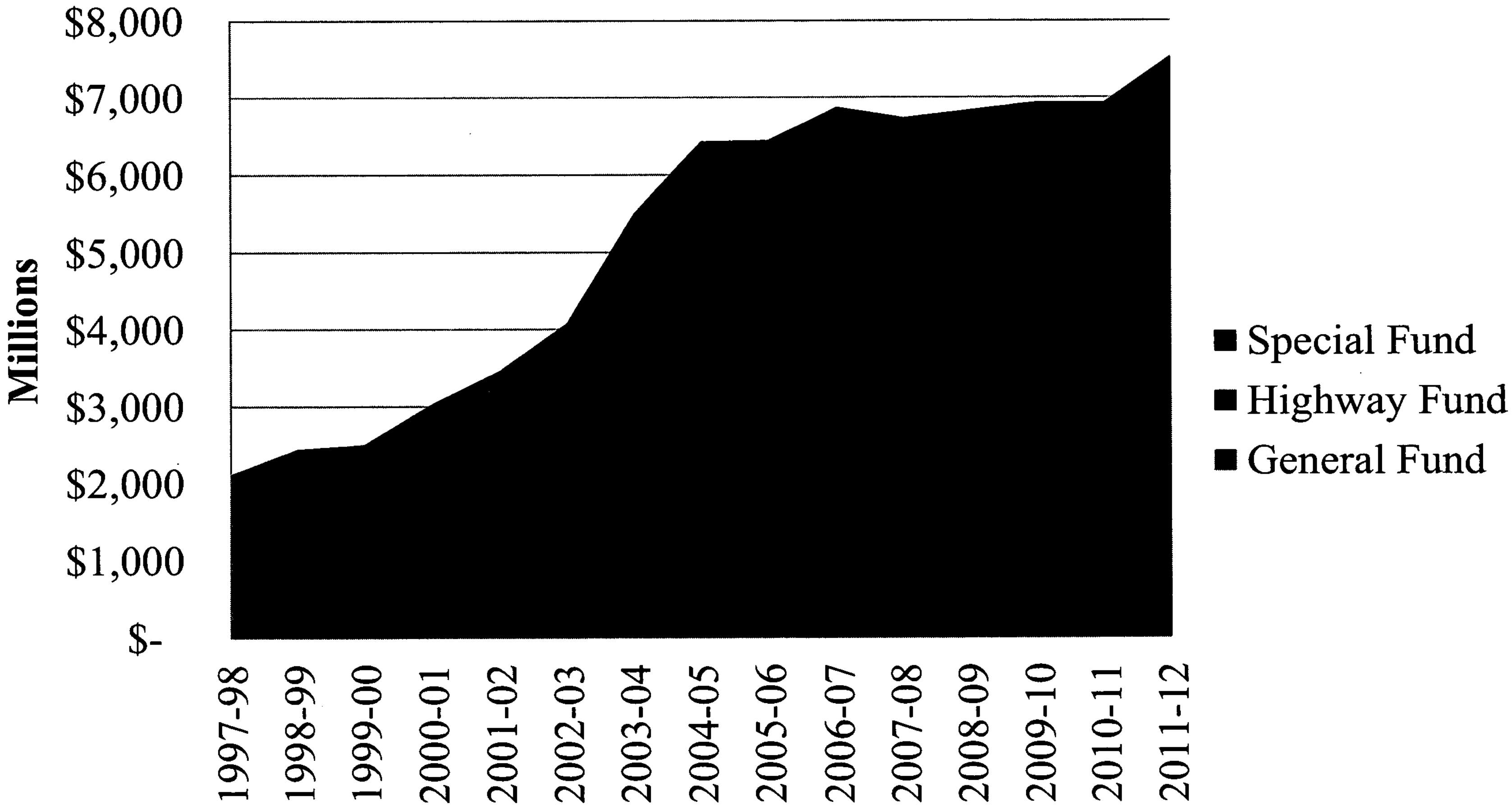
Outstanding Debt

- General Obligation Bonds:
  - $4.8 Billion
- Special Indebtedness:
  - $2.1 Billion
- GAP Funding
  - Highway fund support of NC Turnpike projects
  - $64 million in FY 2011-12
  - $81.5 million in FY 2012-13

Special Indebtedness

Project	Amount (Billions)	Percentage
Corrections	$0.8	22%
Psychiatric Hospitals	$0.4	11%
University	$1.6	42%
Parks and Land	$0.2	5%
Repair and Renovation	$0.4	9%
Other	$0.4	11%
Total	**$3.8**	**100%**

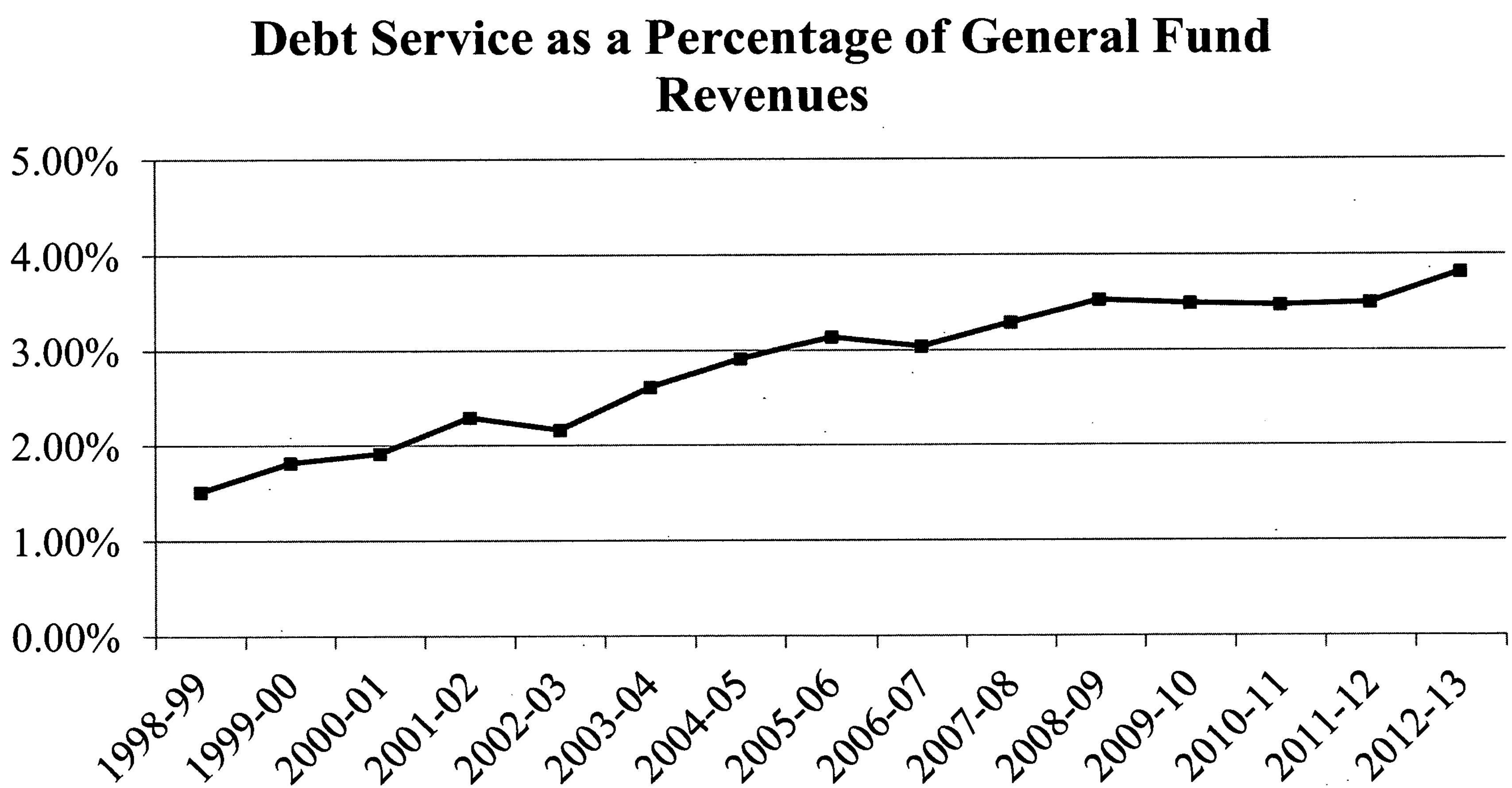
Outstanding Debt History



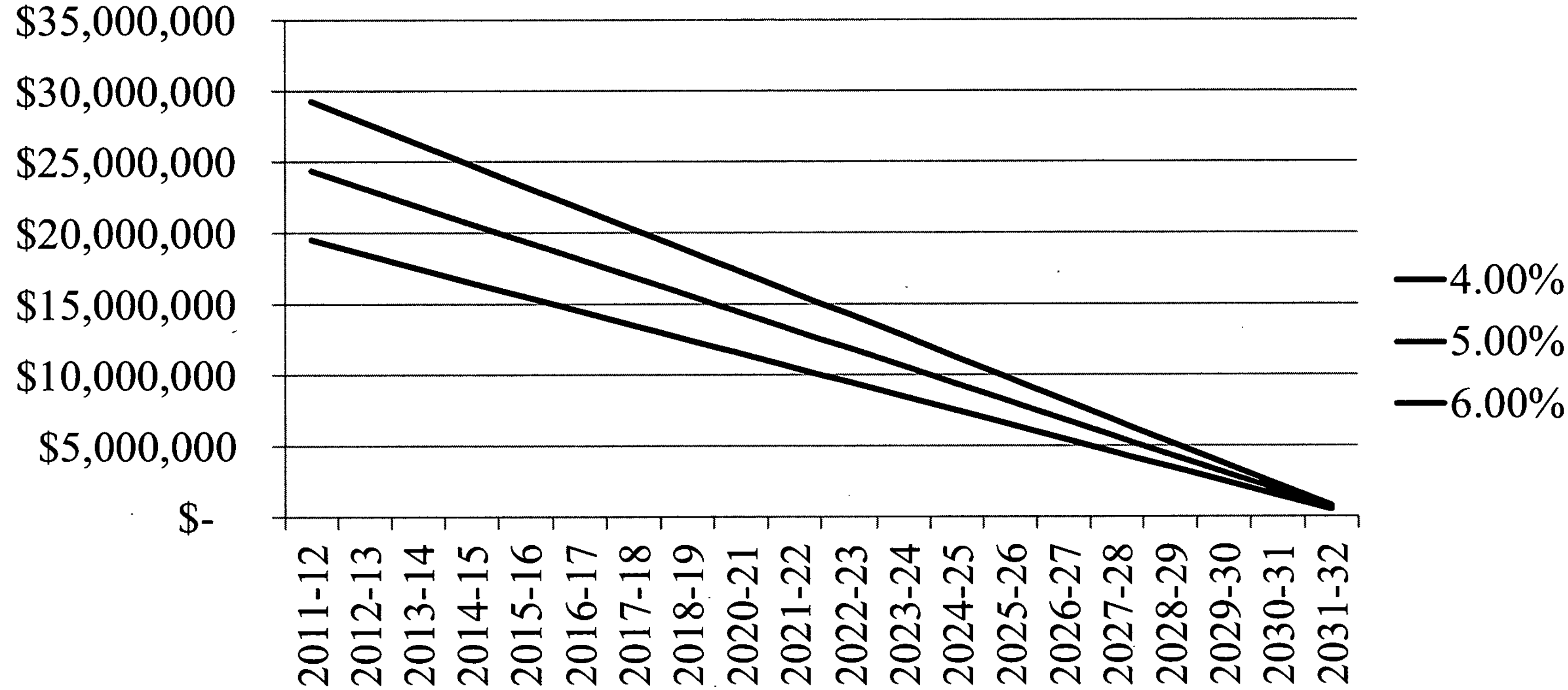
Debt Service

- General Fund Debt Service for the Current Biennium:
  - FY 2011-12: $688,957,188 (3.5%)
  - FY 2012-13: $759,984,974 (3.8%)
- General Obligation vs. Special Indebtedness (Estimates):
  - FY 2011-12: 72% GO vs. 28% Non-GO
  - FY 2012-13: 65% GO vs. 35% Non-GO

Debt Service History



Interest Rate Change Impact



$500 million bond issue; fixed principal, semi annual repayment

Recent Actions:

- S.L. 2011-66 (Debt Reduction Act of 2011) canceled $232.4 million in debt.

- H.B. 491 (Repeal Capital Facilities Finance Act): Passed House

Deficiencies in State Buildings

- Facilities and Condition Assessment Program:
  - $2.3 billion in deficiencies in General Fund supported state agency buildings
  - $2.1 billion in deficiencies in General Fund supported university buildings

Questions

Mark Bondo

Fiscal Research

markb@ncleg.net

919-733-4910

Suite 619, Legislative Office Building

ATT #6 12-13-11

Unemployment Insurance Benefits and Debt

Claire Hester

Fiscal Research Division

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and Employment Security Commission

December 13, 2011

Outline

- **Overview of Unemployment Benefits**
  - Unemployment Insurance Basics
    - State Unemployment Tax Act
    - Federal Unemployment Tax Act
  - Regular Unemployment Benefits
  - Extended Benefits (EB)
  - Emergency Unemployment Compensation (EUC)
- **Overview of Debt**
  - Timeline
  - Comparison with Other States

Unemployment Insurance Basics

- Who is eligible for unemployment benefits?
  - Lost their jobs through no fault of their own
  - Worked during a specified time period and received a minimum amount of wages during that time period
  - Are able and available for work
  - Are actively seeking new employment

- How are benefits and administrative costs funded?
  - Benefits and costs are paid by employers through two taxes:
    - State Unemployment Tax Act (SUTA)
    - Federal Unemployment Tax Act (FUTA)

SUTA

State Unemployment Tax Act

- Tax Rate: Most new employers use the standard beginning tax rate:

Year	Rate	Taxable Wage Base
2006	1.200% (.01200)	$17,300
2007	1.200% (.01200)	$17,800
2008	1.200% (.01200)	$18,600
2009	1.200% (.01200)	$19,300
2010	1.200% (.01200)	$19,700
2011	1.200% (.01200)	$19,700

  – Based on economic conditions, employer's tax rate could range from 0.00% to 6.84%
- Taxable Wage Base: $19,700
- Used to pay **Unemployment Benefits** only

SUTA

State Unemployment Tax Act

- State Reserve Tax
  - 20% tax on the SUTA
  - Imposed upon contributions in any calendar year when the Unemployment Insurance Reserve Fund does not equal or exceed $163,349,000
  - Implemented January 1, 2005

- Monies in the UI Reserve Fund were used to pay interest on the debt in September 2011
  - Current Balance (Oct. 2011): $42.7m

FUTA

Federal Unemployment Tax Act

- Tax Rate: 6.0%
- Taxable Wage Base: $7,000
  - Employers in States that are in compliance receive a 5.4% FUTA credit
- Includes a tax credit reduction of 0.3% annually for states with a federal loan for 2 consecutive Januarys
  - In NC, this tax credit reduction will be effective in January 2012 since the debt was not paid by November 10, 2011.*

Effective FUTA for "compliance" States:
0.6%
~$42/ employee

Effective FUTA for "non-compliance" States:
0.9%
~$63/ employee

* *Assumes no changes to federal law, debt repayment before January 1, 2012*

Unemployment Benefit Types

- Regular Unemployment Benefits
  - Permanent benefit programs
  - Paid by State unemployment taxes (SUTA)
- Extended Benefits
  - Permanent benefit programs
  - Split funded by State & Federal taxes (SUTA & FUTA)
- Emergency Unemployment Compensation (EUC)
  - Four Tiers of benefits
  - Temporary benefit programs
  - 100% Federally funded

Regular Unemployment Benefits

- Duration: Up to 26 weeks *(determined by formula)*
  - Annual average duration (Oct. 2011): 17.1 weeks
- Benefit Amount: Up to $522/ week
  - Max. Weekly Benefit = 66.67% of the 2010 average weekly insured wage ($784.37)
- Funding Sources:
  - Interest on the State UI Trust Fund
  - SUTA
- Permanent Program

Oct 2011 Averages	
Duration:	17.1 weeks
Weekly Benefit:	$281.47

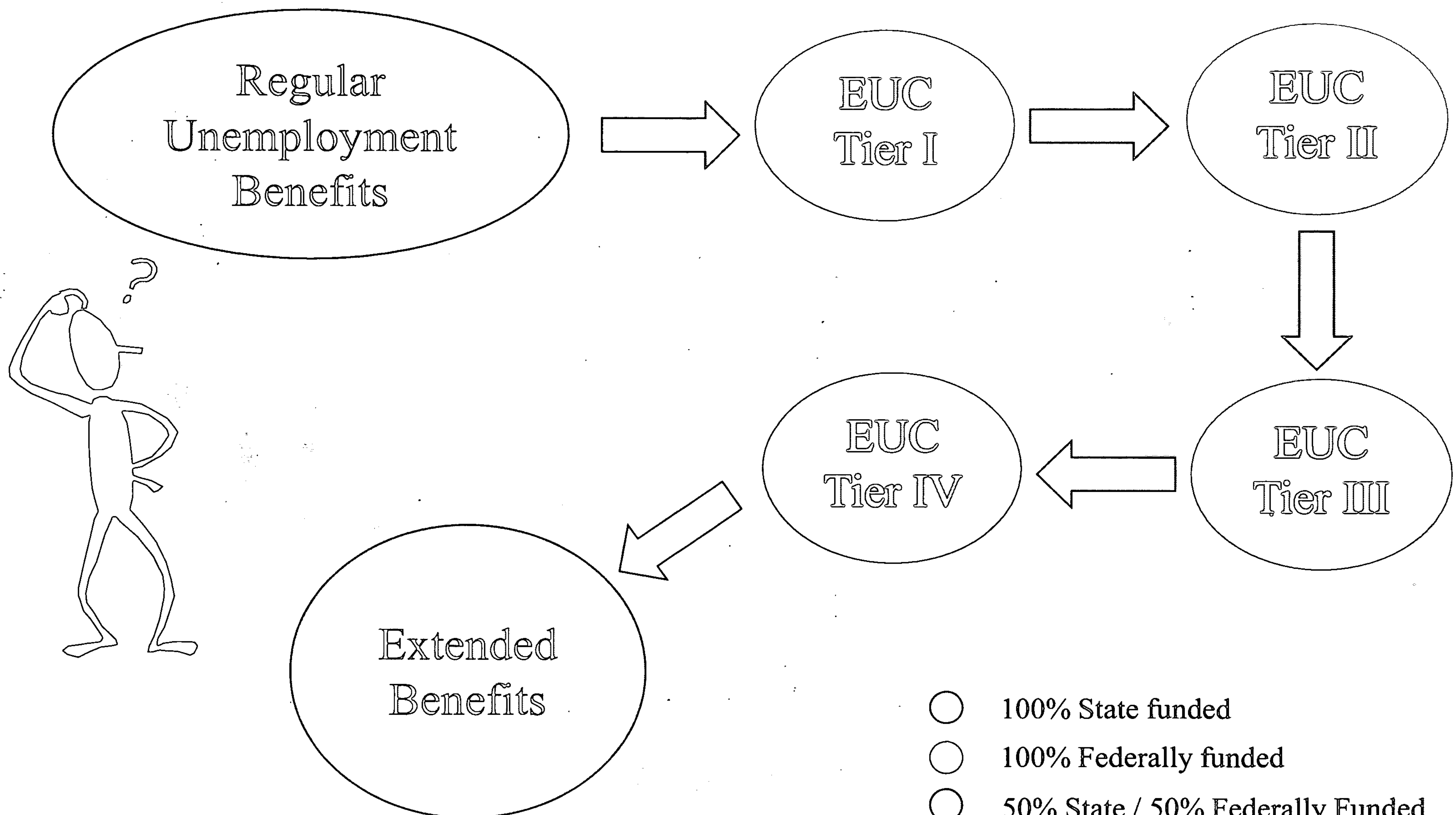
Extended Benefits (EB)

- Duration: 20 weeks
- Trigger: Unemployment rate of 6.5% or higher for three months
- Benefit Amount: Same as Regular Benefits
- Funding:
  - 50% by State, 50% by Federal Government
  - For claims made between February 22, 2009 and November 28, 2010, this program was 100% Federally funded

Emergency Unemployment Compensation (EUC)

- Duration:
  - EUC Tier I – 20 weeks
  - EUC Tier II – 14 weeks
  - EUC Tier III – 13 weeks
    - Trigger: 3-month average unemployment rate > 6%
  - EUC Tier IV – 6 weeks
    - Trigger: 3-month average unemployment rate > 8.5% or higher
- Benefit Amount: Same as Regular Benefits
- Funding: 100% Federally funded

Receiving Benefits



DEBT ISSUES

Borrowing Basics

- Amount Borrowed (Oct. 2011): $2.6 Billion
- Interest Rate: 4.0869% for 2011
  - Interest rate equals the rate paid by the Federal government on state UI reserves
  - Interest rate is expected to change in 2012
- Interest began accruing on January 1, 2011
  - Made a $78.8 million interest payment in September, 2011

Debt Timeline

- February 2009 — First Advance of Federal Loan
- January 2011 — Interest began to accrue
- September 30, 2011 — First interest payment made
- November 10, 2011 — Principal balance due to avoid 0.3% FUTA credit reduction
- January 2012 — FUTA credit reduction effective
- September 30, 2012 — Next interest payment due
- November 10, 2012 — Principal balance due to avoid *additional* 0.3% FUTA credit reduction

NC UI Trust Fund Account History

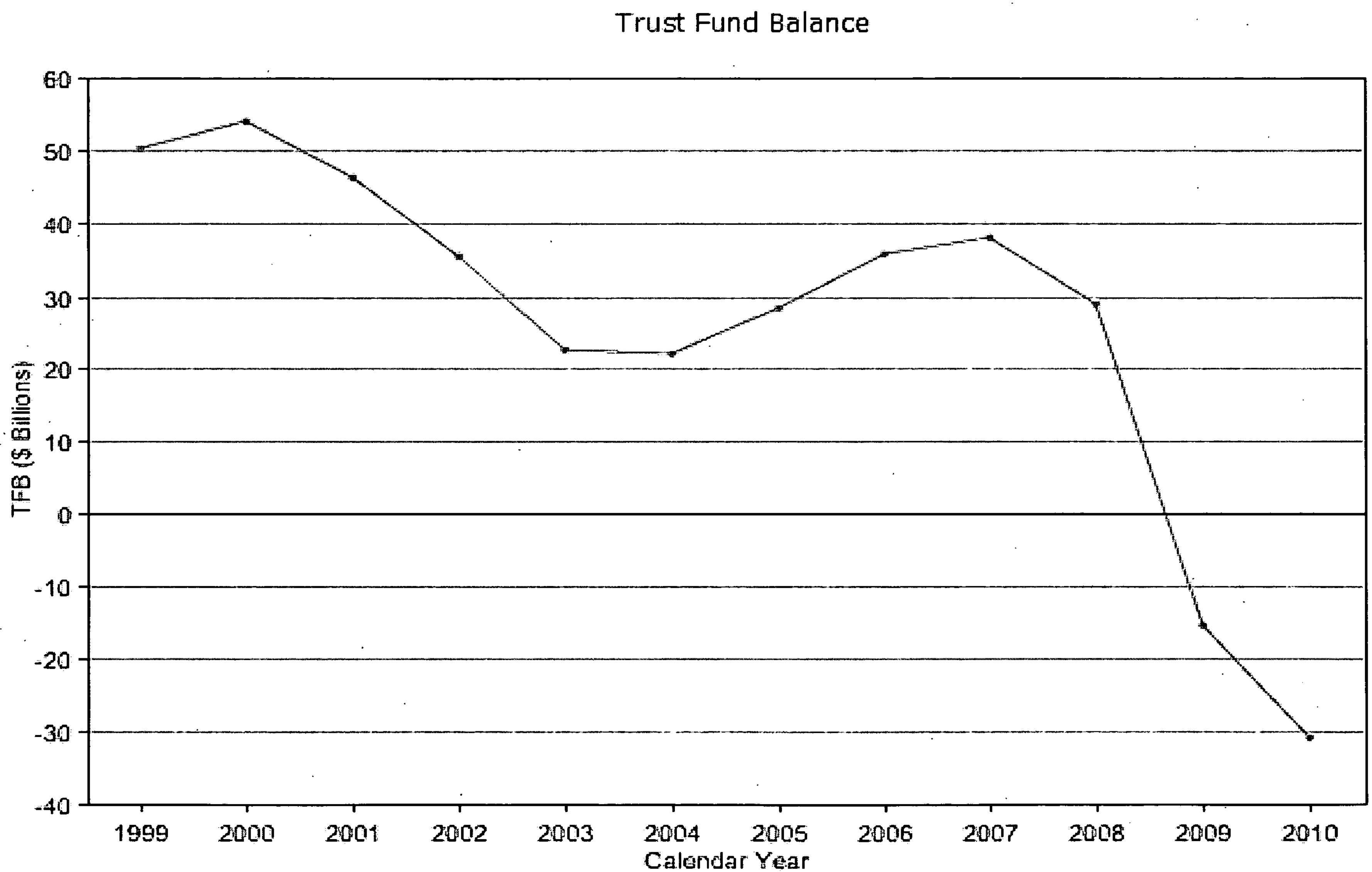
N.C. Unemployment Insurance Fund History

Rating Period 1999-00 through 2008-09
(in Millions)

Period	UI Taxes	Total Benefits	Transferred from Reserve[1]	Balance	Change in Fund Balance
99-00	326.7	(460.0)	0.0	1219.4	(47.9)
00-01	319.3	(706.5)	0.0	906.7	(312.6)
01-02	368.0	(1192.9)	0.0	368.5	(538.2)
02-03	602.2	(1196.8)	190.5	(23.4)	(391.9)
03-04	803.7	(1056.0)	0.0	(273.2)	(249.8)
04-05	883.9	(797.0)	68.7	(117.1)	156.2
05-06	934.6	(834.4)	153.3	139.1	256.1
06-07	929.3	(860.6)	130.1	348.3	209.3
07-08	907.5	(1032.7)	171.1	414.6	66.3
08-09	855.9	(2321.0)	154.0	(886.0)	(1300.6)

[1] *The Employment Security Commission Reserve Fund is funded through a 20% surcharge on the unemployment insurance tax. It is sometimes used to supplement the Unemployment Insurance Fund when the UI Fund has been depleted.*

Total UI Trust Fund Balance All State Accounts



Debt Impact

- If principal not paid off November 10, 2011:
  - 0.3% increase in FUTA rate *annually* until loan is settled
  - FUTA tax increase is applied to NC's principal loan balance

- Cost to employers:
  - Effective FUTA in compliance states (0.6%): $42/employee
  - With reduced FUTA credit (0.9%): $63/employee
  - By 2015, the effective FUTA would be 2.1%, or $147/employee

Comparison with Other States

- 30 states have borrowed over $40 billion total
  - NC currently ranks 5th in money borrowed
    - Behind California, Michigan, New York, and Pennsylvania
  - 27 states & USVI are currently borrowing
    - Three paid back (Idaho, Hawaii, & Massachusetts)
- 0.3% FUTA credit reduction has already occurred in three states: South Carolina, Indiana, and Michigan

VISITOR REGISTRATION SHEET

Legacy Costs from State Health Plan, Pensions, & ESC December 13, 2011
Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Katherine Joyce	NCASA
Jessi Hayes	NCHBA
Evelyn Hawthorne	PENC
Matt Farrell	NCSBA
Tim Bryan	NC 401(K)/457 (Prudential) /
Amy O'Neal	NCGA-Office of Rep Stam
Suzanne Beasley	SEANC
Samuel Watts	N.C. Treasurer's Office /Retirement System
Solari	DST
David Starling	DST
Elizabeth Biser	Brooks Pierce

VISITOR REGISTRATION SHEET

Legacy Costs from State Health Plan, Pensions, & ESC December 13, 2011

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Mona Moon	State Health Plan
JOEL MACKIARD	GRM & ASSOC.
Andy Ellen	NCRMA
John Thompson	CCNC
Bill Rowe	NC Justice Center

Committee Sergeants at Arms

NAME OF COMMITTEE Hse Sel Legacy Costs State Health

DATE: 12/13/11 Room: 605

House Sgt-At Arms:

1. Name: Wayne Davis
2. Name: Bob Rossi
3. Name:
4. Name:
5. Name:

Senate Sgt-At Arms:

1. Name:
2. Name:
3. Name:
4. Name:
5. Name:

Jayne Nelson (Rep. McGee)

From:	Jayne Nelson (Rep. McGee)
Sent:	Thursday, September 20, 2012 02:44 PM
Subject:	<NCGA> House House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC Committee Meeting Notice for Tue, 10-16-2012 at 12:00 noon

NORTH CAROLINA HOUSE OF REPRESENTATIVES
COMMITTEE MEETING NOTICE
AND
2011-2012 SESSION

You are hereby notified that the Committee on **House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC** will meet as follows:

DAY & DATE: Tuesday, October 16, 2012
TIME: 12:00 noon
LOCATION: LOB 605 LOB
COMMENTS: Staff will update information that was presented at the first meeting.

Respectfully,
Representative Folwell, Chair
Representative McGee, Chair

I hereby certify this notice was filed by the committee assistant at the following offices at **2 PM** o'clock on **September 20, 2011.**

Principal Clerk
Reading Clerk – House Chamber

Jayne Nelson (Committee Assistant)

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Jayne Nelson (Committee Assistant)

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and Employment Security Commission

Agenda

Tuesday, October 16, 2012
12:00 p.m.
Legislative Office Building, Room 605

I. Welcome and Comments
Representative Dale Folwell, Cochair
Representative William McGee, Cochair

II. Economic Expectations (2-5 Years)
Barry Boardman, Fiscal Research Division, NCGA

III. Long-term Liabilities for Retired Employee Health Benefits
David Vanderweide, Fiscal Research Division, NCGA

IV. Pension Benefits
Stanley Moore, Fiscal Research Division, NCGA

V. Review of Unemployment Debt Owed to Federal Government
Kristin Walker, Fiscal Research Division, NCGA

VI. State Debt
Mark Bondo, Fiscal Research Division, NCGA

VII. Committee Discussion

House Select Committee on Legacy Costs from the
State Health Plan, Pensions & ESC

October 16, 2012

The House Select Committee on Legacy Costs from the State Health Plan, Pensions & ESC meeting was held on October 16, 2012 in Room 605 of the Legislative Office Building at 12:00 noon. Representative McGee presided as Chair. Members present were: Representatives McGee (Cochair), Folwell (Cochair), Hamilton, Jackson, L. Johnson, Moffitt and Pierce. Sergeant-at-Arms present were: John Brandon and Jesse Hayes. (See attachment 1) A Visitors Sheet is attached. (See attachment 2)

Representative McGee called the meeting to order at 12:01 pm and said the scope of the meeting would be the same as the first meeting held last year with updates on previous information and new information that has been attained since then. He also added that this is one of the most important committees in existence now and that the business done in this committee affects all taxpayers in North Carolina. Representative McGee then read the committee mission statement for emphasis on the State's ability to afford these costs.

Representative McGee introduced Dr. Barry Boardman of Fiscal Research to present his interpretation of a State and National economic forecast over the next five years. (See attachment 3) At the conclusion of the presentation, Cochairman Folwell asked for more information at future meetings on the following:

1. Inflation and medical expenses
2. 7 ¼ % investment goal for pensions
3. Percentage rate risks/US charging a higher interest rate
4. Proliferation of non-profits-expenses as relate to the State (no property or corporate taxes)

Dr. Boardman responded that he would work on his requests. Representative McGee asked what would happen to long bonds if held in the Treasurers' portfolio. Representative McGee then further stated that in a period of rising interest rates the principle value would decline to reflect the higher interest rate environment. With a high proportion of interest rate sensitive holdings, it will be difficult to meet the 7.25% return expected when interest rates are as low as they are now.

The Chair introduced David Vanderweide to give an overview of the States' long-term liabilities and retired employee health benefits. (See attachment 4) Mr. Vanderwiede stated that the State has an unfunded liability at present of $29b and by 2021, as funded now, is projected to be $44b. He made comparisons in eligibility, Medicare, retiree premiums with other states and concluded that North Carolina has the 9th highest liability in the United States. Representative Folwell commented that the vested but not yet drawing retirement was a large part of the liability ($5 or $6b) and Mr. Vanderweide agreed and added that it impacts the health plan also. In relation to paying down the

States' liability, Representative McGee asked if normal costs are not a better measure. Mr. Vanderweide agreed and stated that it would take $2.5 billion to pay off the liability in 30 years, more if in less years. Representative Folwell asked questions regarding taxation in other states of North Carolina retirees' incomes who have established residencies in other states while drawing retirement and health benefits. He followed up with a question about the health plan calendar year and how it had affected the military.

Representative McGee introduced Stanley Moore to give an overview of pension benefits. (See attachment 5) Mr. Moore stated that in the last few years, contributions have gone down while retirees are going up because of budget cuts. Mr. Moore also stated that Representative McGee was correct when he spoke earlier to the loss of $16b due to downfall of equities in the plan in 2008.

In reference to Representative Folwell's question about out of state retirees, Mr. Moore said the $4,000 exemption was not a drain on the income tax system that the five year health insurance does kick in but only from 60-65 then Medicare comes in and the State makes money on it. Representative Linda Johnson asked again if retirees from out of state were a drain on the State by avoiding paying income taxes. Mr. Moore replied that they are not but "double-dippers" in their 50's were the biggest drain.

Representative McGee asked if underfunding raised the States' liability regarding the pension plan. Mr. Moore responded that in 2001 when Governor Easley took office, he directed all the employers to send all of the money to the budget office, the budget office intercepted 130m from the teachers and state employees and used it to balance the budget. That legislature passed a bill to pay back the funds with interest over the next five years. The principle was repaid, but not the interest.

Representative Jackson asked Mr. Moore to address "spiking" of salaries. Mr. Moore said that the spiking of salaries for a desired outcome was largely considered an extraordinary event. Representative Jackson asked if there had been legislation addressing the problem. Representative McGee responded that a bill was offered by Representative Folwell, but after much investigation and discussion, it was deemed that "spiking" was not a widespread problem in the normal course of TSERs retirement beneficiaries and the legislature did not want to hurt those going through a normal progression in salary during their careers. Representative Folwell added that 10% a year or 40% in 4 years was added to alleviate any problem of people knowing people in power.

Representative Linda Johnson asked since there is no committee for Legacy Costs, only a study committee, how does the legislature know when a problem such as this comes up, that they need to act to solve it. Mr. Moore said the Treasurers' Department sees these problems when they come up, send it on to the Board and they ask for legislation.

Representative McGee recognized Mr. Steve Toole of the Treasurer's Department to address the committee. Mr. Toole stated that their Department is always using analysis to work with the legislature and staff to protect the system for the long term.

Ms. Kristen Walker of Fiscal Research gave an overview of Unemployment Debt owed to the Federal Government. (See attachment 6) She gave an explanation of North Carolina's unemployment insurance debt and compared North Carolina's debt to other states with North Carolina being 3rd behind California and New York.

Mark Bondo of Fiscal Research addressed the committee about the State Debt and explained the benefits and drawbacks of debt service, and the types of State Debt and bonds. (See attachment 7)

Representative McGee recognized Mr. Sam Watts of the Retirement System who said he will have more data regarding the funded ratio. Mr. Watts responded that they will have that number next week. He added that the State is the 4th lowest on state plans.

Representative Folwell asked if there is anything in the Affordable Health Care Act that prevents the State from abdicating its' responsibilities to provide health care for its' employees. David Vanderweide responded that there is a penalty for not covering active employees, but not for retirees. Representative Folwell asked if the State is doing an analysis, as businesses are, to see what the penalties of not covering employees would cost the State versus covering them. Ms. Mona Moon (Department of the State Treasurer/State Health Plan) was recognized to answer Representative Folwells' question to staff. Ms. Moon said due to the complexity of the affect the Affordable Health Act will have on the State, it is their plan to look at these numbers with their Board of Trustees and with the Treasurer at a later date in order to make recommendations to the Legislature.

Paul Meyer of the North Carolina League of Municipalities was recognized and stated that their organization has a lot of smaller employers that will be eligible for this sooner. He added that some of those calculations are occurring now, and he expects to see some of the smaller cities making those decisions earlier than the larger ones.

Representative McGee thanked the members, staff and visitors, and asked the members if they had any questions for the next meeting, to give them to the Chairs or staff. The meeting adjourned at 1:40 pm.

W C McGee

Representative William C. McGee,
CoChair (presiding)

Jayne A. Nelson

Jayne A. Nelson,
Committee Assistant

Representative Dale Folwell,
CoChair

10-16-12 ATT 1

Committee Sergeants at Arms

NAME OF COMMITTEE House Select Committee on Legacy Cost from State, Pension + State Health Plan

DATE: 10-16-2012 Room: 605

House Sgt-At Arms:

1. Name: John Brandon
2. Name: Jesse Hayes
3. Name: ______
4. Name: ______
5. Name: ______

Senate Sgt-At Arms:

1. Name: ______
2. Name: ______
3. Name: ______
4. Name: ______
5. Name: ______

10-16-12 ATT 2

VISITOR REGISTRATION SHEET

House Select Comm on Legacy Costs from State Health & Pensions
Name of Committee **Date** 10-16-2012

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Sarah Stowe	NC State
C Stoltz	TSS
Ed Regan	NCRGEA
Mitch Leonard	SEANC
Chuck Stone	SEANC
Carl Dean	OSP
Brian Balfour	Civitas
Kara Rouse	AOC
Russ Eubanks	AOC
Harry Payne	NC Justice Center
Paul Meyer	NCLM

VISITOR REGISTRATION SHEET

Name of Committee | Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Steve Toole	DST
Sam Watts	NC Dept. of State Treasurer
[illegible]	DST
Mona Moon	DST-SHP
Evelyn Hawthorne	EHCR

10-16-12 ATT #3

Economic Outlook 2012-2017

House Select Committee on Legacy Costs

October 16, 2012

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Outline

- Caveats and Data Sources
- State Tax Revenues
- Economic Forecast US and NC
  - Economic Activity: GDP
  - Housing
  - Retail Sales
  - Income
  - Employment

Caveats and Data Sources

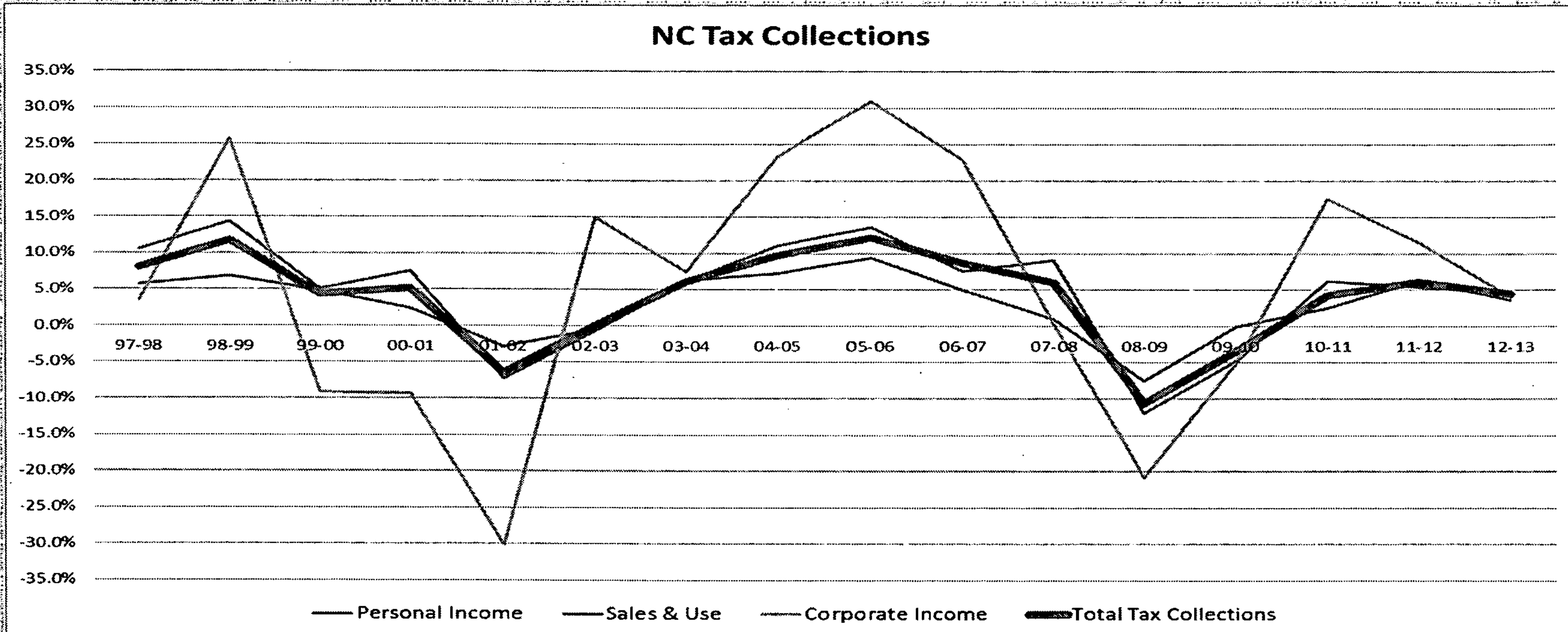
Caveats

- Forecast error increases the further out you go
- Forecasts tend to converge to the long-run mean

Data

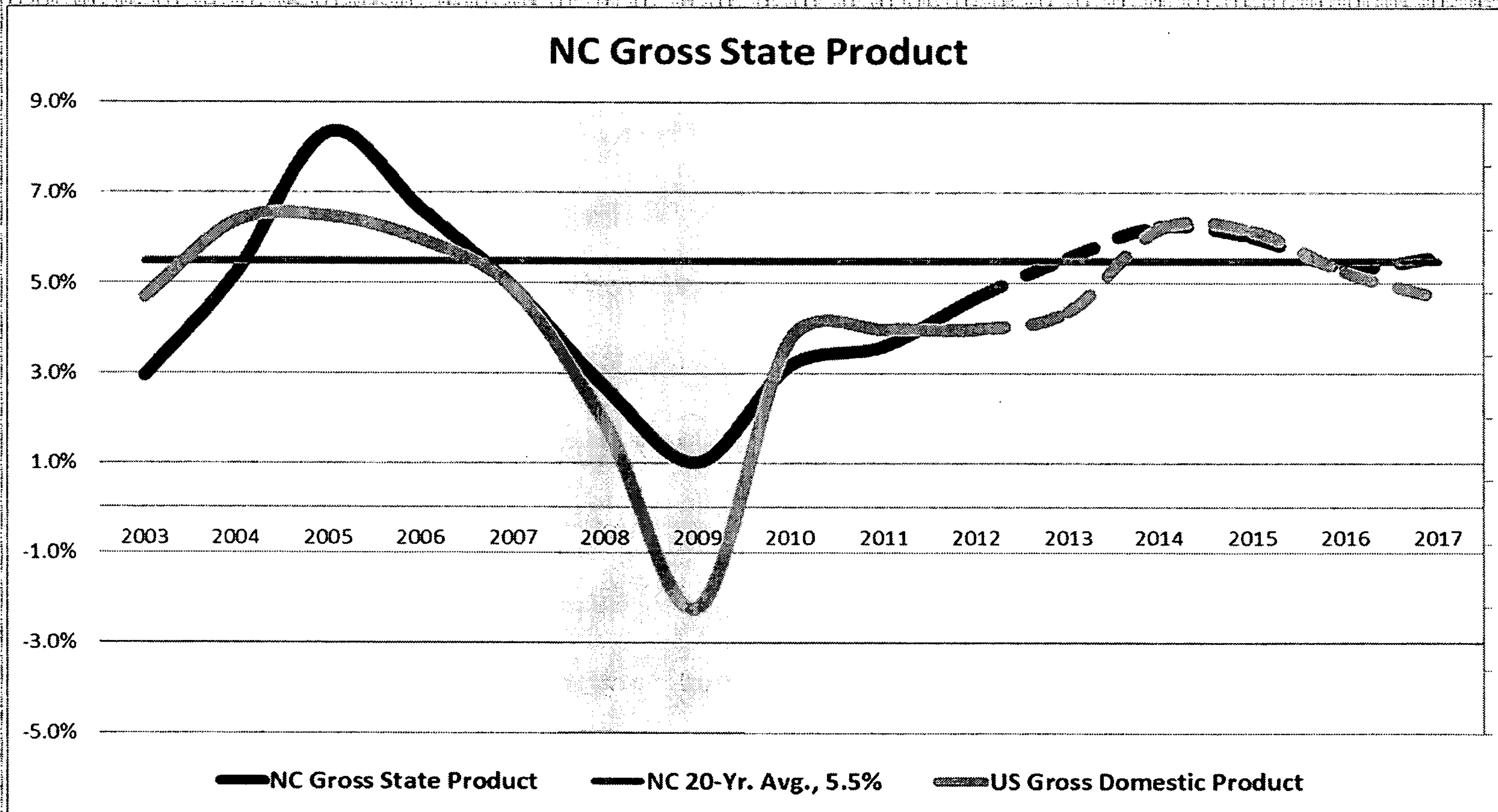
- Long-range economic forecast developed by Moody's Analytics using multiple federal data sources

General Fund Revenue: Tax Collections (baseline)



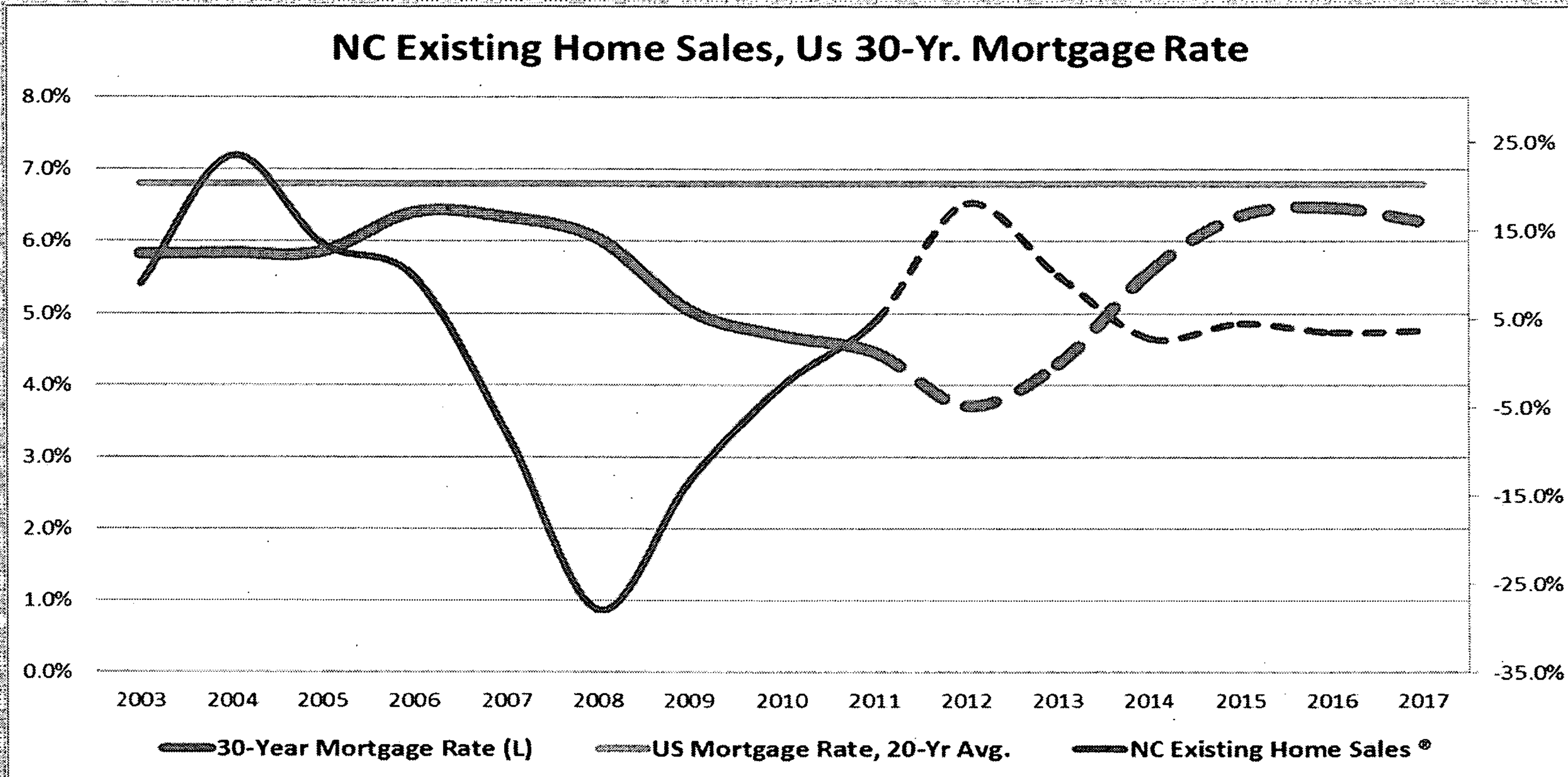
- 15-year average growth of baseline tax collections is 4.1%.
- FY 11-12, up 5.4% and FY 12-13, forecast to grow 4.4%.

Economic Growth: GDP



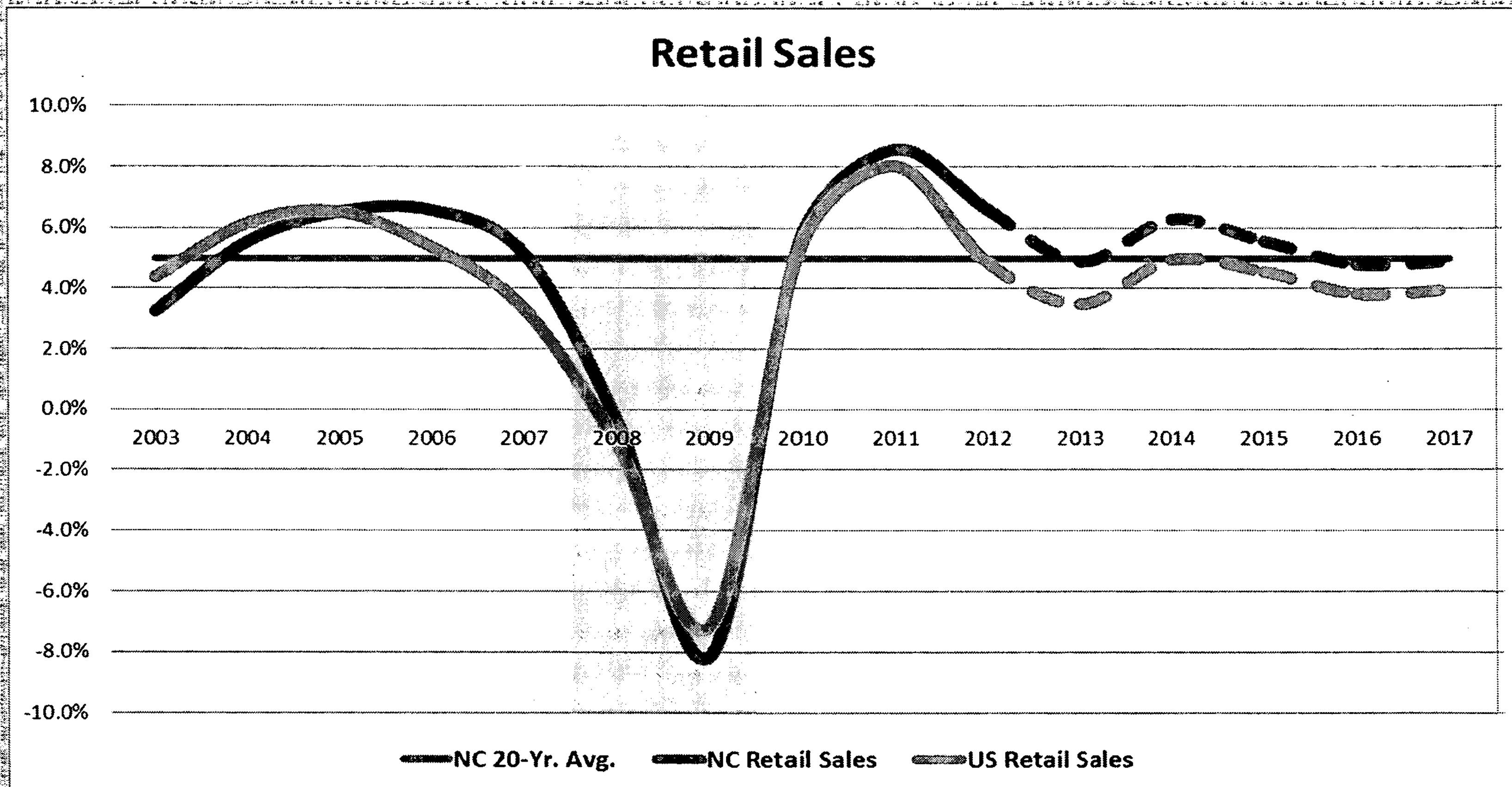
- NC equals or surpasses long-run trend for 2013-15.

Housing Market



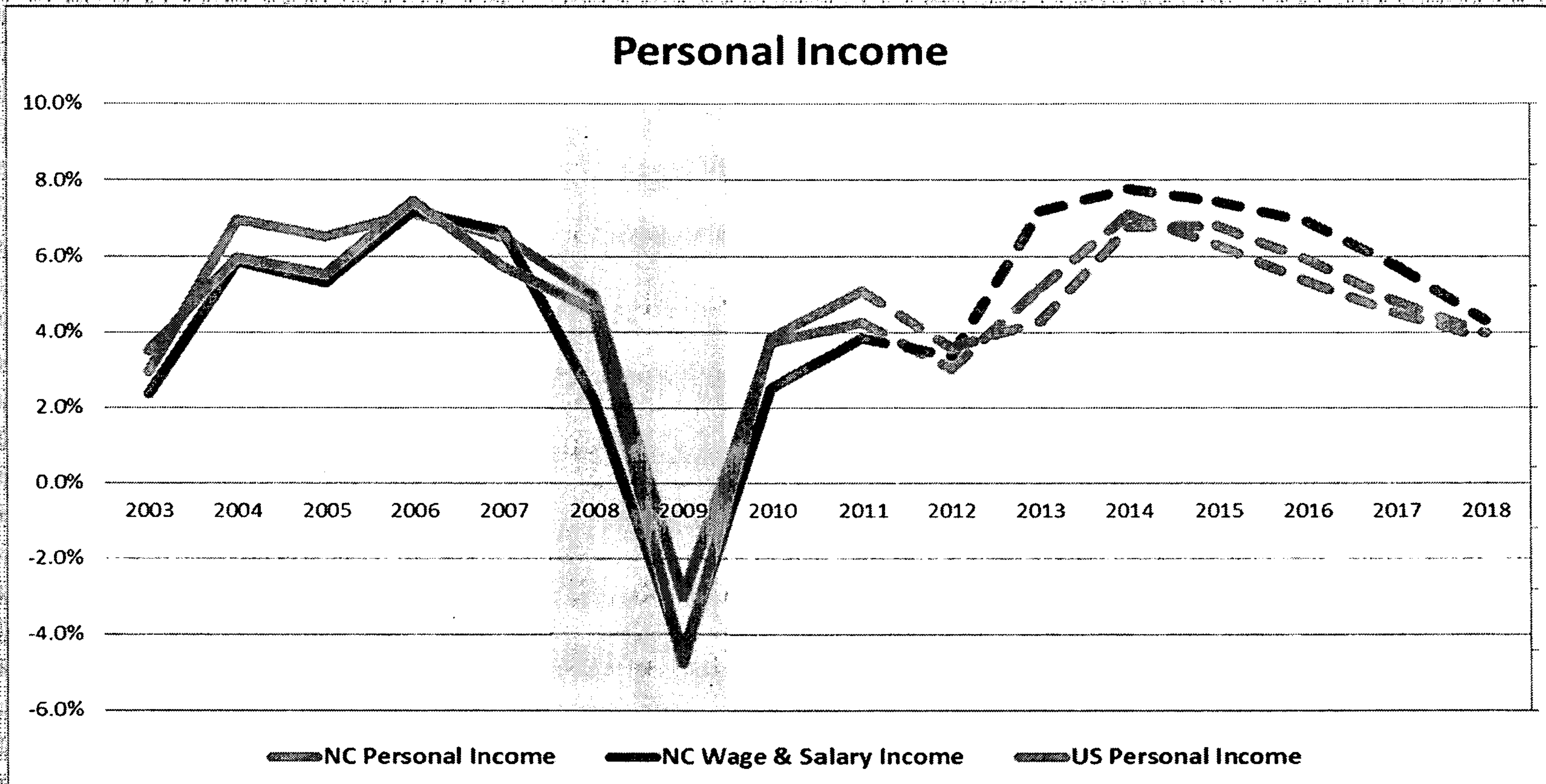
- Through 2018, the number of existing home sales are expected to run 10-15% below peak level of 2006.

Retail Sales



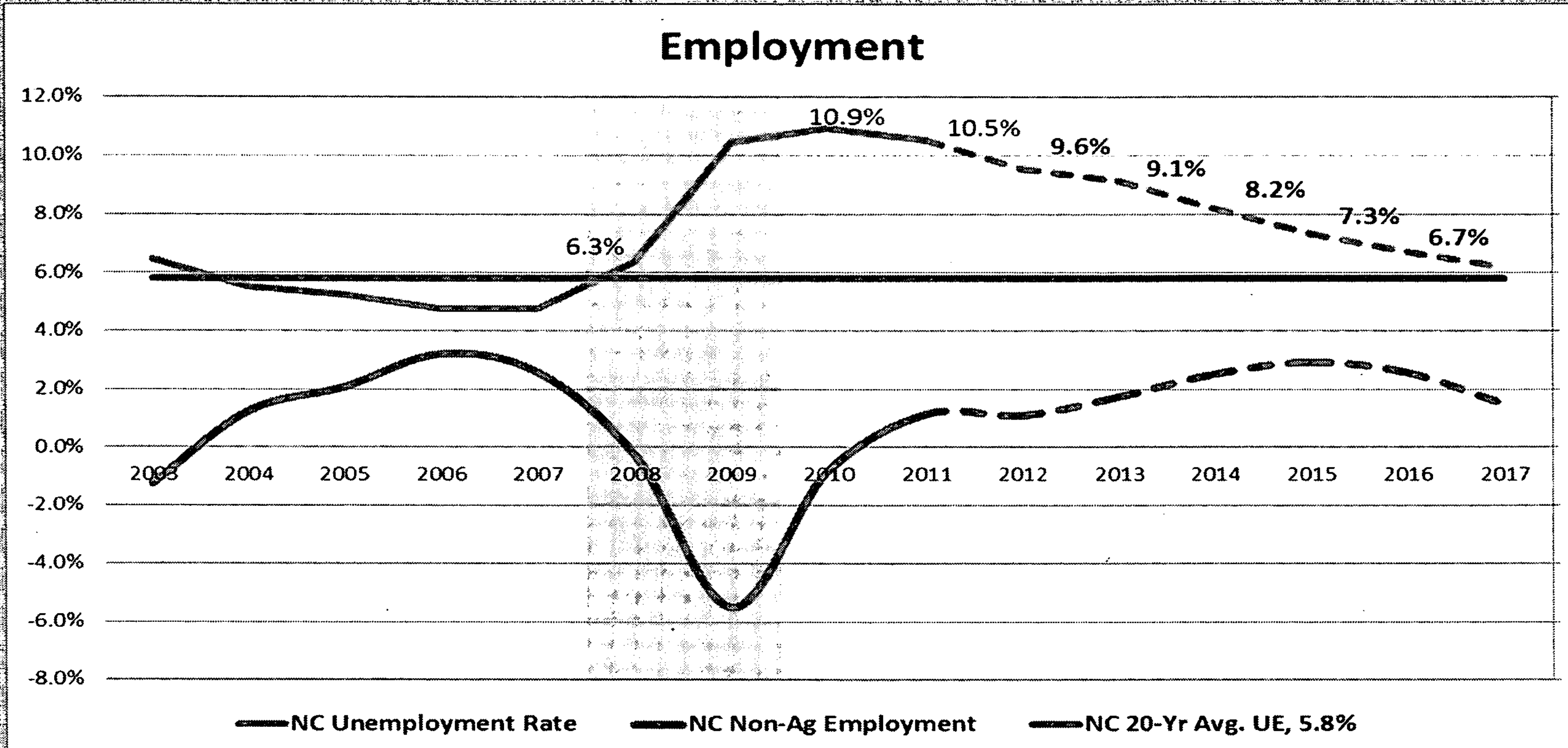
- Retail sales rebound in 2011 and level-off through 2017.

Personal Income



- NC Wage & Salary growth expected to accelerate in 2013 above average growth of 4.8%.

Employment



NC, Non-AG Employment (Thousands)

2010	2011	2012	2013	2014	2015	2016	2017
-32.63	44.54	53.27	69.09	101.77	121.39	109.60	64.95

Long-term Liabilities for Retired Employee Health Benefits

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and ESC

October 16, 2012

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

10-16-12 ATT# 4

Outline of Presentation

1) Benefits Overview

2) Financial Status

3) Funding Projections

4) Comparison to Other Employers

Benefits Overview

- Most retired State employees pay premiums of $0 to $23 per month to participate in the State Health Plan *

- Retiree's portion of the premium represents at most 5% of the total premium paid by the State and the retiree

- Retiree pays the full stated premium for dependent coverage if retiree elects to cover dependents

* Those hired on or after October 1, 2006 will pay a much larger premium if they retire with less than 20 years of service, but they constitute a small fraction of current retirees.

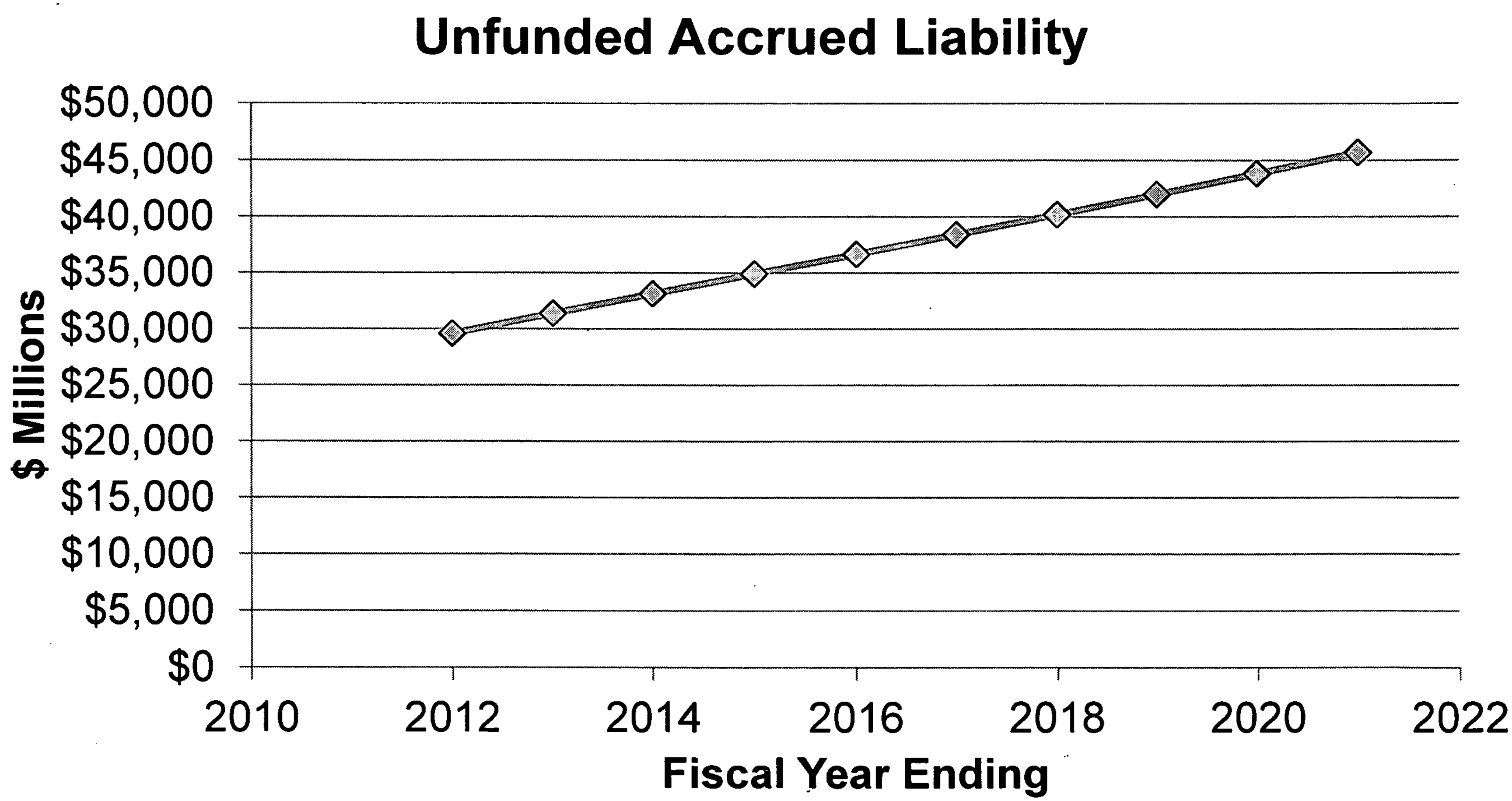
Benefits Overview

- When the retiree becomes eligible for Medicare, the State Health Plan coverage becomes secondary and the retiree is expected to enroll in Medicare Parts A and B, but not D
- Services covered and network of providers are comparable to those in plans typically provided to active employees by large public and private employers
- Out-of-pocket requirements are somewhat higher than average among large employers

Financial Status

Measure	**Value at Dec 31, 2011**
Accrued Liability for Active Employees (pro-rated share of total value of future benefits)	$16,709 Million
Accrued Liability for Retired and Terminated Employees	$13,630 Million
Total Accrued Liability	$30,339 Million
Assets	- $729 Million
Unfunded Liability	$29,610 Million

Financial Status



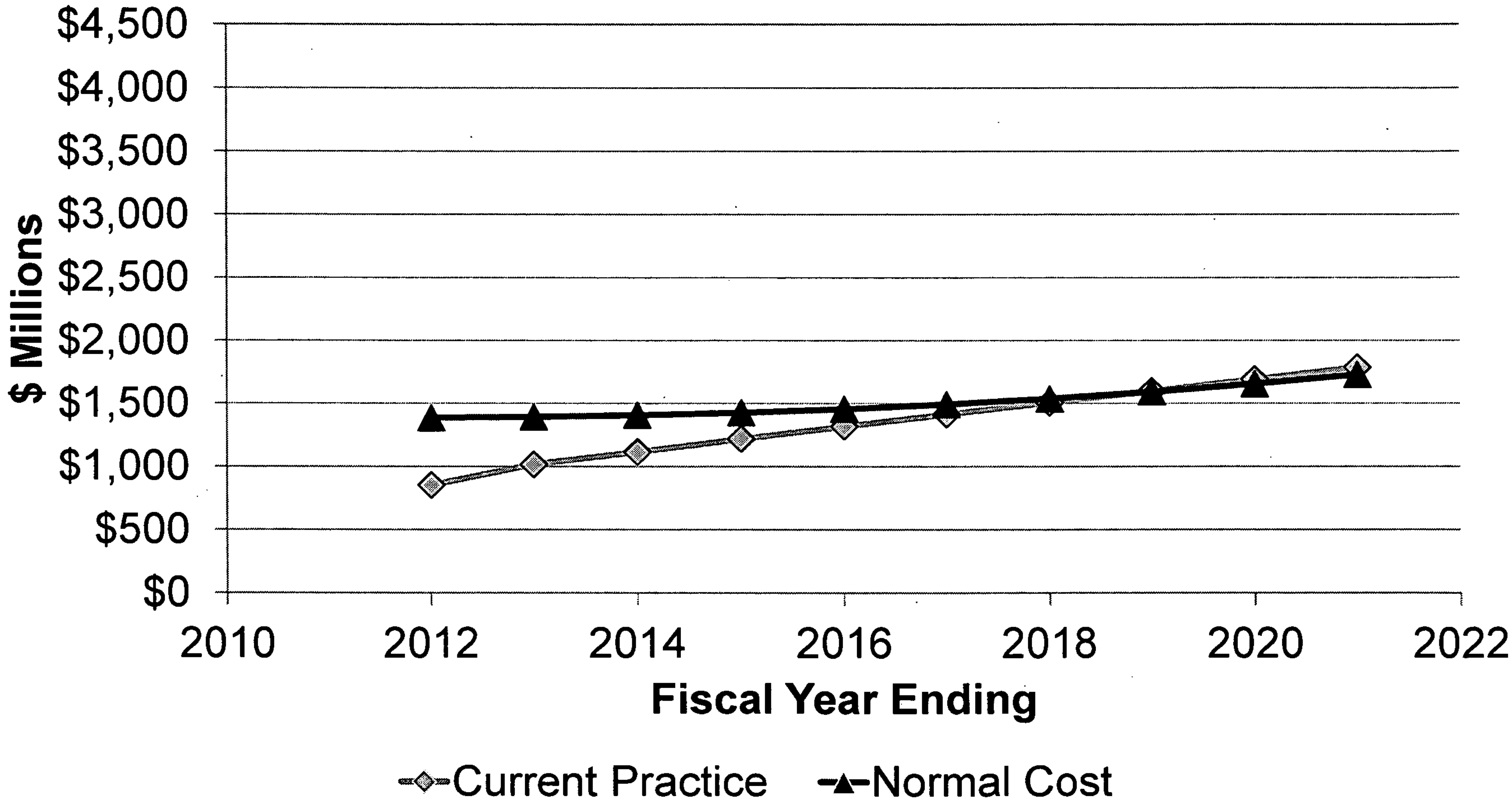
Assumes current contribution practice and benefits package.

Funding Projections

Current contribution practice:

- Current contribution for retiree medical benefits is set in the Appropriations Act
- Usually enough to pay claims and administrative expenses for current retirees plus a small cushion

Funding Projections

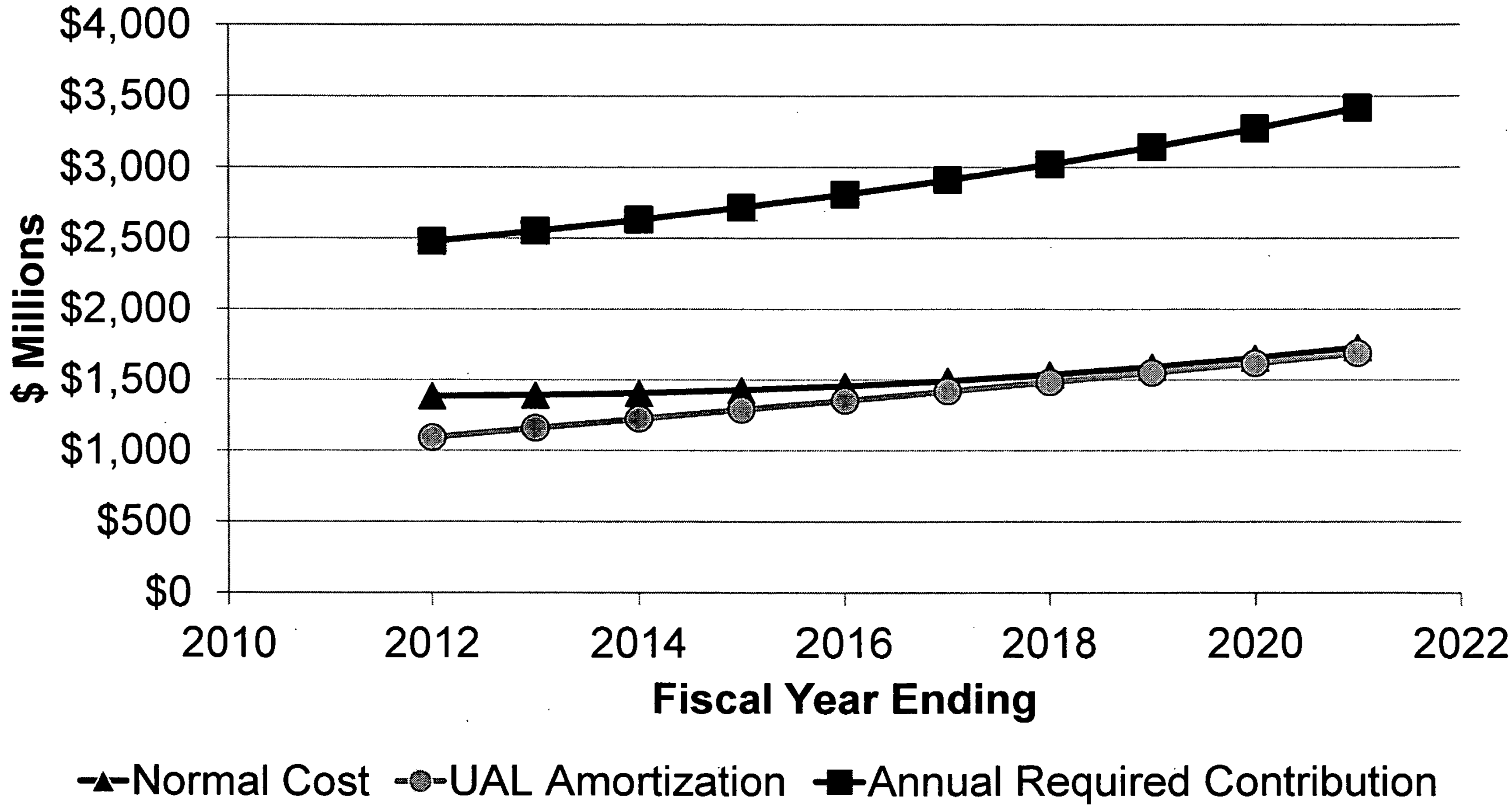


Funding Projections

Annual Required Contribution:

- Amount calculated by actuary under government accounting standards (GASB 43/45)
- Sum of:
  - Normal Cost: amount to pay for benefits accrued in current year by active employees
  - Amortization of Unfunded Liability: amount to pay off unfunded liability over 30 years

Funding Projections



Annual Required Contribution assumes current contribution practice and benefits package.

Comparison to Other Employers

Other States

- All 50 states offer retiree medical benefits to at least some employees
- Differences are mostly in:
  - Who is eligible
  - How coverage changes upon Medicare eligibility
  - Share of premium paid by retiree
- N.C.'s per capita unfunded liability is 9^{th} highest in the U.S.
- About 70% of states require more than a nominal premium from the retiree
- Few states have set aside significant assets to pay future benefits

Comparison to Other Employers

Neighboring States - Examples

- **South Carolina:**
  - Retirees hired before 2008 are eligible for full employer subsidy with 10 years of service.
  - Employee-only premium is $10 per month in S.C.'s Savings Plan and $98 per month in S.C.'s Standard Plan.
  - Per capita unfunded accrued liability is only slightly smaller than N.C.'s.

- **Virginia:**
  - State provides premium subsidy of $4 per month per year of service, retiree pays the remainder of the premium.
  - Per capita unfunded accrued liability is less than 10% of N.C.'s.

Comparison to Other Employers

Private Sector

- In 2012, 25% of large firms and 4% of small firms that offered medical benefits to employees also offered them to retirees
- In 1988, 66% of large firms offered retiree medical benefits
- Of those that do offer retiree medical, over 40% require retiree to pay the full premium. Another 30% have capped employer contribution at a fixed dollar amount.
- Number of employers offering retiree medical may decline further in 2014 if everyone is guaranteed access to coverage through exchanges, although some might still provide credits to purchase insurance
- Few companies have set aside significant assets to pay future benefits

Fiscal Research Division Contact

David Vanderweide
Fiscal Research Division
Suites 203 and 619
Legislative Office Building
919-733-4910
david.vanderweide@ncleg.net
www.ncleg.net/fiscalresearch

10-16-12 Att # 3

Pension Benefits Discussion

House Select Committee on Legacy Costs from the State Health Plan and Pensions

October 16, 2012

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Major Benefit Programs

- Teachers' and State Employees' Retirement System
  - Contributing Members: 316,817
  - Retired Members: 171,786
- Local Governmental Employees' Retirement System
  - Contributing Members: 122,930
  - Retired Members: 51,700
- Consolidated Judicial Retirement System
  - Contributing Members: 568
  - Retired Members: 562
- Legislative Retirement System & Legislative Fund
  - Contributing Members: 170
  - Retired Members: 278

Other Benefit Programs

- Firemen's and Rescue Squad Workers' Pension Fund
- National Guard Pension Plan
- Register of Deeds Supplemental Pension Plan
- Disability Income Plan of North Carolina
- Death Benefit Trust

Defined Contribution Plans

- University Optional Retirement Program
- Supplemental Retirement Income Plan -NC 401(k)
- NC Deferred Compensation Plan - 457

Teachers' and State Employees' Retirement System Defined Benefit - formula

- Years of Service x Average Final Compensation (48 highest consecutive months salary) x Accrual Factor (1.82%) = Annual Benefit Amount

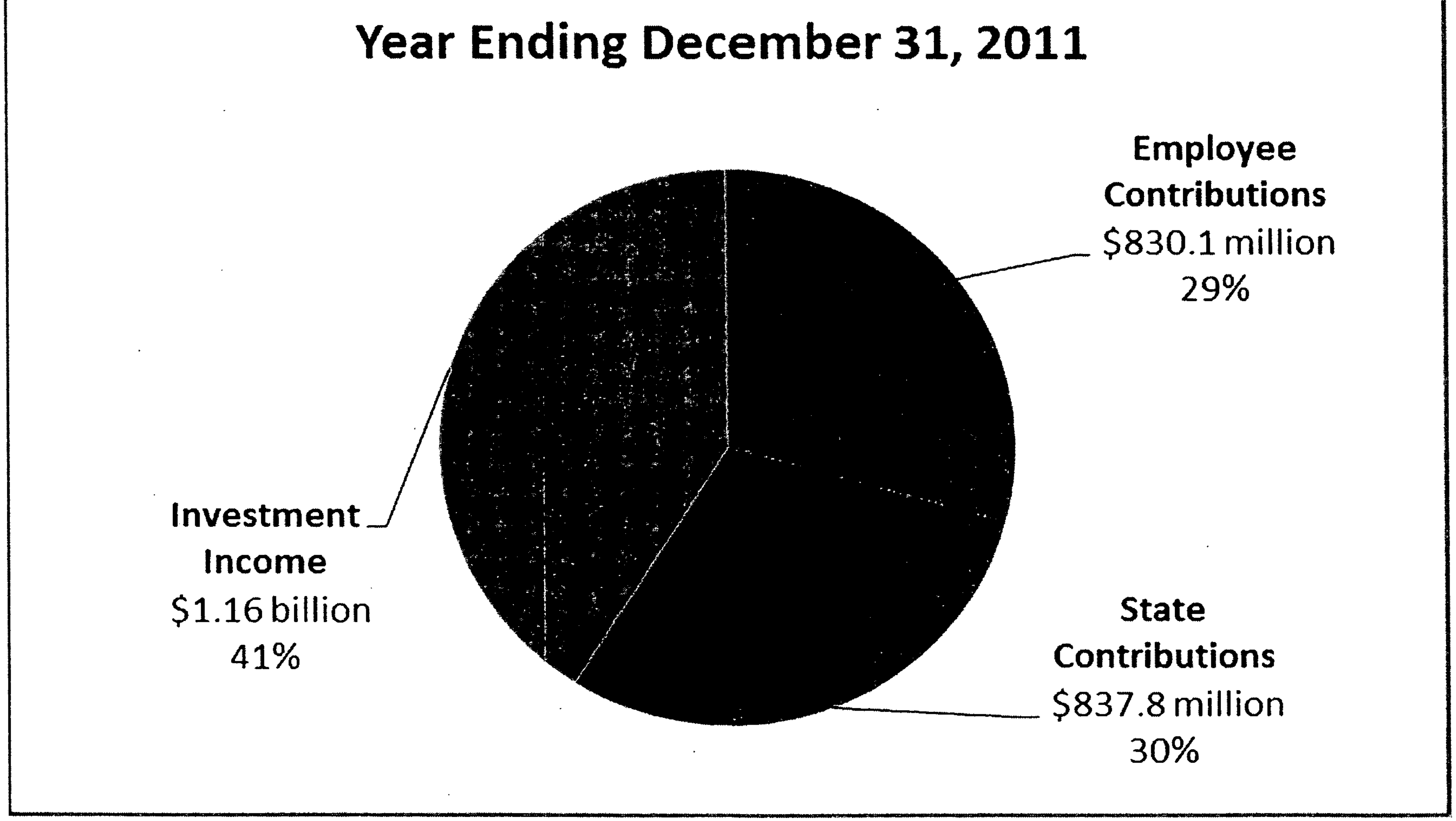
- Annual pension benefits equal approximately 54% of Average Final Compensation with 30 years of service.

Teachers' and State Employees' Retirement System Sources of Funding

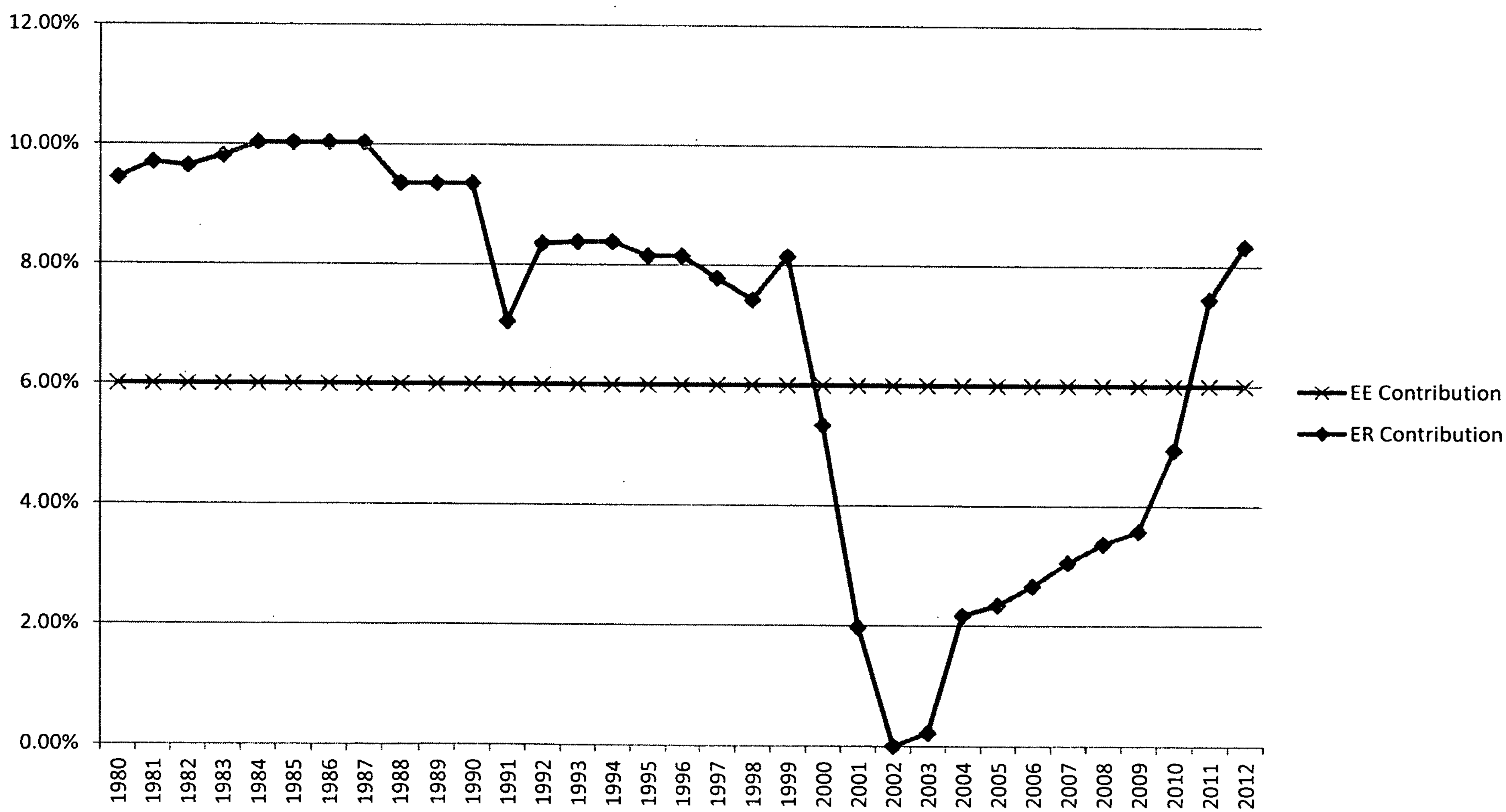
- Active Employees contribute 6% of salary
- Employers contribute annually based upon recommendations of the System's actuary and funding appropriated by the General Assembly

  Employer contribution rate was 7.44% for FY 2011-12 and 8.33% for FY 2012-13
- Investment income

Teachers' and State Employees' Retirement System
Sources of Funding



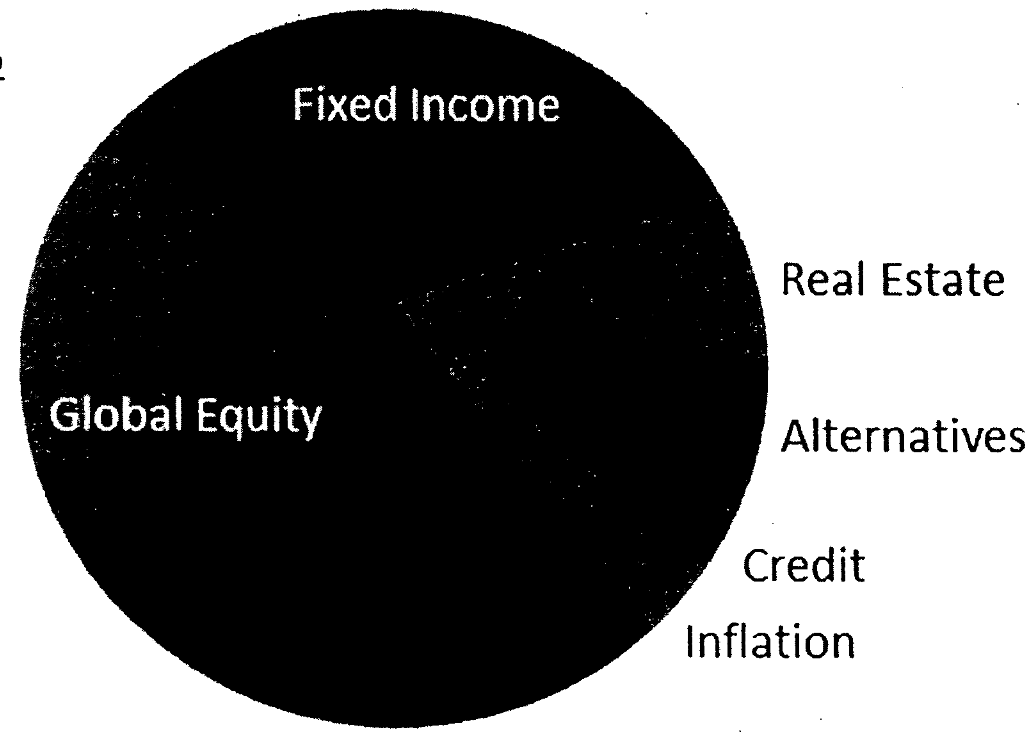
Teachers' and State Employees' Retirement System Contribution History



Teachers' and State Employees' Retirement System
Asset Allocation
June 30, 2012

	Current %	Policy %
Global Equity	42.97%	40.5%
Fixed Income	36.98%	38.0%
Real Estate	7.75%	8.0%
Alternatives	5.15%	4.5%
Credit	4.18%	4.5%
Inflation	2.97%	4.5%

Current %

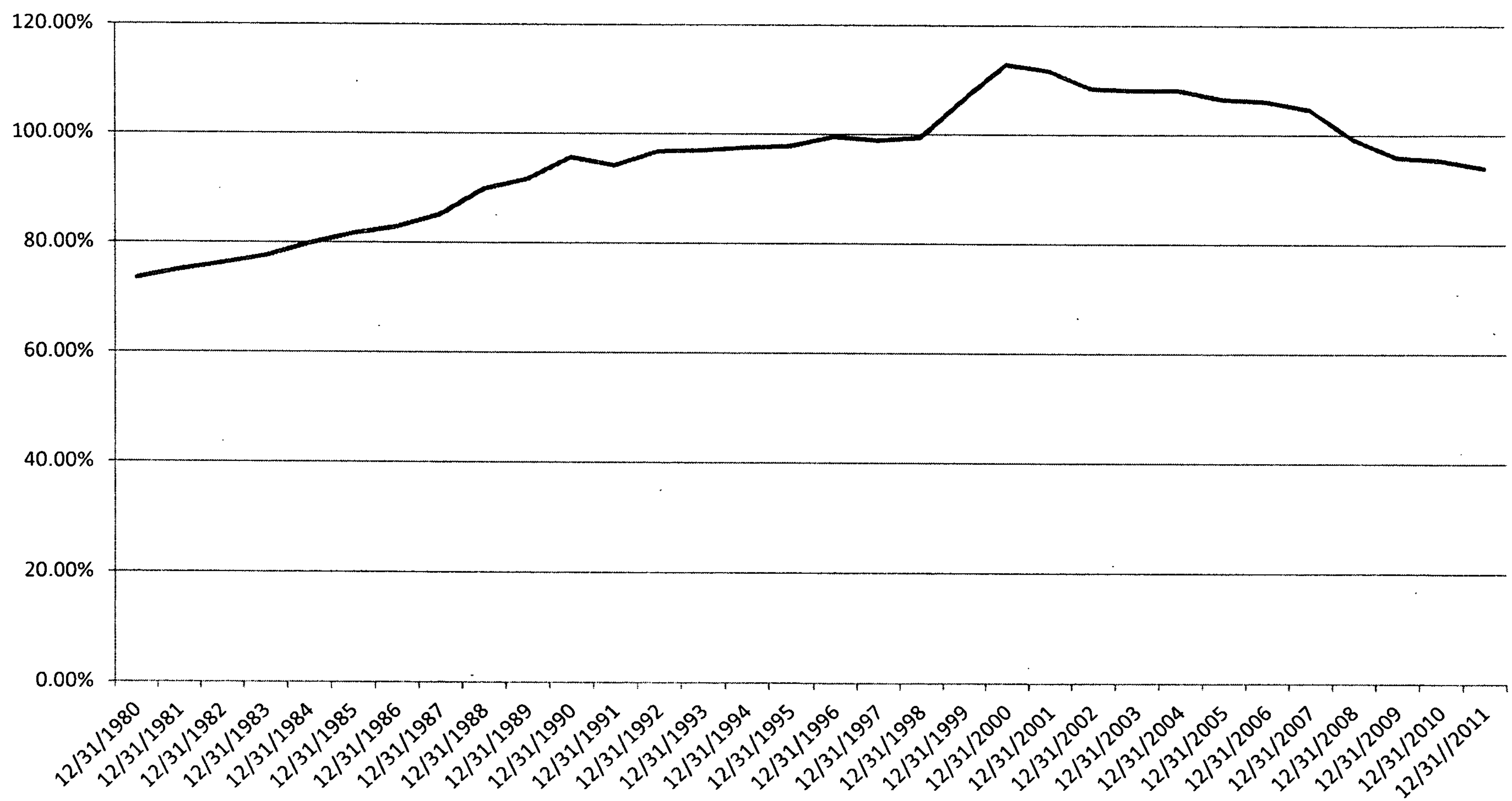


Teachers' and State Employees' Retirement System
Funded Ratio

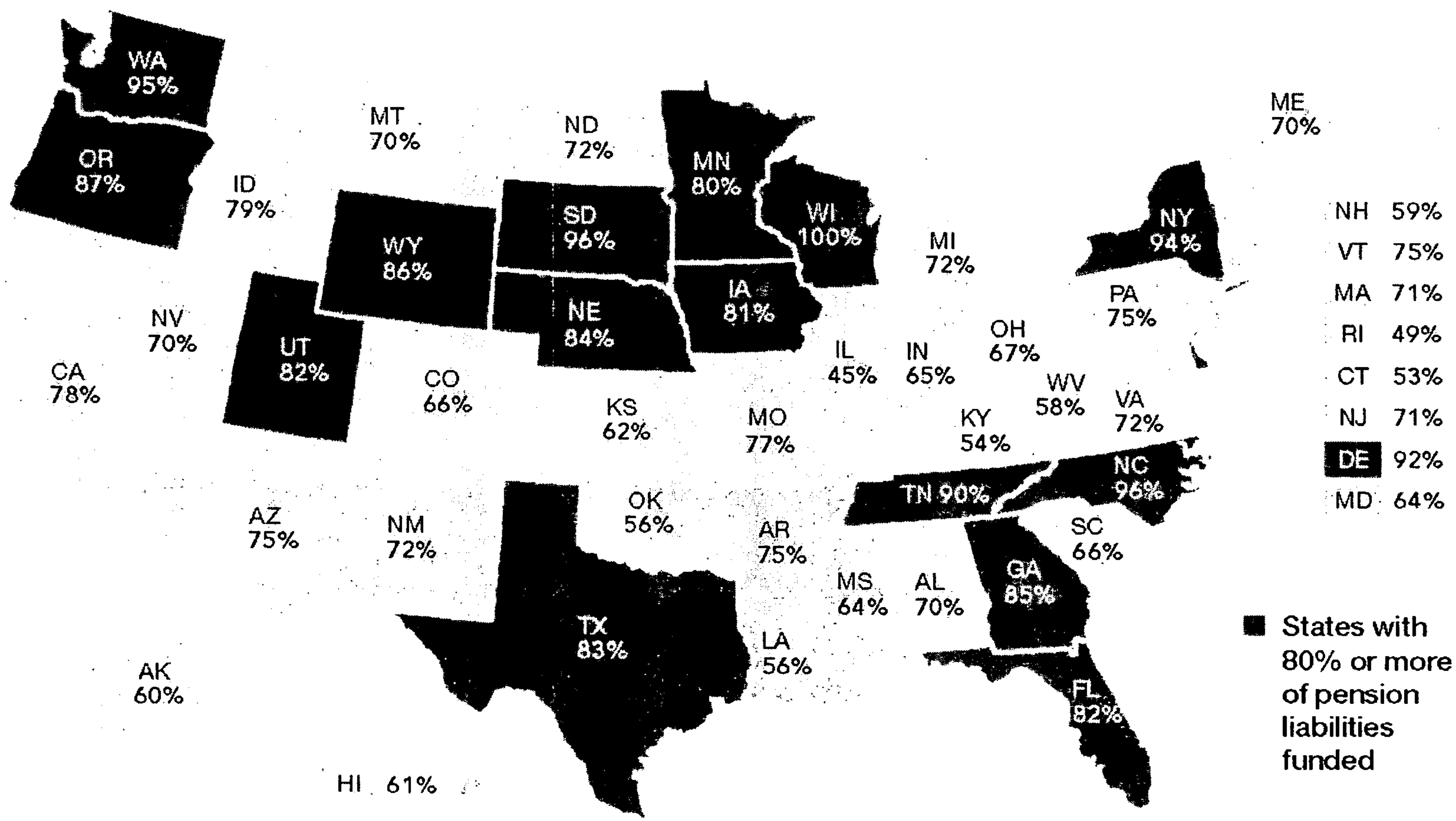
$$\text{Funded ratio} = \frac{\text{assets}}{\text{liabilities}}$$

- Indicates the percentage of accrued benefits that are covered by current assets.
- 94% funded as of December 31, 2011
- Unfunded accrued liability totaled $3.7 billion as of December 31, 2011

Teachers' and State Employees' Retirement System Funded Ratio History



Teachers' and State Employees' Retirement System Funded Ratio Comparison



Source: 2012 report from the Pew Center report entitled "The Widening Gap: Update"

Teachers' and State Employees' Retirement System Funded Ratio

- Each 1% drop in the funded ratio equates to a .5% increase in the employer contribution rate.
- Each .5% increase in the employer contribution rate would cost the General Fund approximately $50 million annually.

Contact Information

Stanley Moore
Fiscal Research Division
Room 203D
Legislative Office Building
919-733-4910
Stanleymoore.barnes@ncleg.net

10-16-12 Att # 6

Review of NC's Unemployment Insurance Debt

Kristin Walker

Fiscal Research Division

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and Employment Security Commission

October 16, 2012

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Unemployment Insurance Basics

- Who is eligible for unemployment benefits?
  - Lost their jobs through no fault of their own
  - Worked during a specified time period and received a minimum amount of wages during that time period
  - Are able and available for work
  - Are actively seeking new employment
- All benefits and administrative costs are paid by employers through three taxes:
  - State Unemployment Tax Act (SUTA)
  - State Reserve Tax – only applies under certain circumstances
  - Federal Unemployment Tax Act (FUTA)

SUTA

- Tax Rate: Range from 0.00% to 6.84%
  - Based on employer's experience rating (how many layoffs)
  - Also based on current economic conditions
- Taxable Wage Base: $20,400
- Used to pay **Unemployment Benefits** only

State Reserve Tax

- 20% surtax on SUTA
- Imposed upon contributions in any calendar year when the balance in the Fund does not equal or exceed $163,349,000
- Created in 1987
- Not collected from 1991 – 2005
  - Reserve balance was at $200M
- Currently used to pay interest on debt and to pay for administrative expenses, include local office operations

FUTA

- Federal payroll tax on employers at 6.0% on a taxable wage base of $7,000
- Employers in states that are in compliance are given a 5.4% credit on their FUTA
  - Tax credit reductions take place when states have outstanding Federal unemployment loans for 2 consecutive Januarys

Unemployment Debt Basics

- **Amount borrowed:** $2.5 Billion (as of 10/13/2012)
- **Interest rate:** 2.94%
  - Changes annually
  - Same rate as that paid by the federal government on state trust fund balances
  - Interest began accruing for NC on January 1, 2011
- **Interest Payments**
  - September 2011 - $78.5M
  - September 2012 - $83.9M
  - September 2013 - $85M?

Debt Timeline

February 2009	First advance of federal loan
January 2011	Interest began to accrue
September 30, 2011	First interest payment made
November 10, 2011	Principal balance due to avoid 0.3% FUTA credit reduction
January 2012	FUTA credit reduction effective
September 30, 2012	Second interest payment made
November 10, 2012	Principal balance due to avoid *additional* 0.3% FUTA credit reduction

Debt Impact

- If principal not paid off by November 10 of that year:
  - 0.3% increase in FUTA rate *annually* until loan is settled
  - FUTA tax increases applied to outstanding loan balance
  - Cost to employers: $21 increase per employee per year
- Treasurer's Office estimates debt paid off in 2019 through increased FUTA taxes
  - Rate in 2019 would be 2.4% or $168 per employee

Comparison with Other States

- 20 states have outstanding debts of over $27 billion
  - 36 states borrowed at some point
- NC currently ranks 3rd in the amount of money borrowed – behind California and New York
  - Other large debt states have issued bonds to pay off debt
- Other states have had their FUTA rate go up and have begun paying down debt that way (similar to NC)

Questions?

Kristin Walker
Fiscal Research Division

919-733-4910
kristin.walker@ncleg.net

10-16-12 ATT #7

State Debt

House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC

October 16, 2012

FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Benefits of Debt Finance

- Provides for Intergenerational Equity
- Maintains Stability
- Lowers Opportunity Costs
- Enables Construction of Large Projects

Drawbacks of Debt Finance

- Adds Additional Costs to Projects
- Reduces Flexibility in Future Years
- "Crowds Out" Other Items in the Budget

Types of State Debt

- General Obligation Debt:
  - Secured by the faith and credit of the State
  - Requires the approval of the majority of the Voters
- Two Thirds/Legislative Bonds
  - Secured by the faith and credit of the State
  - Voter approval is not necessary
  - Limited to the amount of indebtedness reduced during previous biennium

Types of Debt: Continued

- Revenue Bonds:
  - Backed by revenues generally tied to the project being financed
- Special Obligation Bonds:
  - Backed by various agency revenues
  - Limited to the University of North Carolina System

Types of Debt: Continued

- Special Indebtedness and COPS
  - Backed by pledge of appropriation
  - Item being financed may be pledged as security
  - Statutory framework enacted in 2003

Debt Management

- Debt Affordability Advisory Committee
  - Created in 2004
  - Advise the State regarding prudent debt levels
  - Chaired by the State Treasurer
  - Other Committee Members include: State Auditor, Sec. of Revenue, State Budget Officer, State Controller, Two Senate Appointees, Two House Appointees

Debt Management Continued:

- 2012 DAAC Recommendations:
  - Structural budget balance
  - Net Tax-Supported Debt should be targeted at no more than 4.0% of General Tax Revenues and should not exceed 4.75%.
  - General obligation debt should be the preferred method of debt financing
  - Centralized debt authorization authority
  - Other liabilities

Debt Management: Continued

- Credit Rating:
  - Aaa (Moody's), AAA (S&P), AAA (Fitch)
- Payout Ratio:
  - Ten year pay out ratio of 63% at June 30, 2011
- Limited Variable Rate Debt:
  - $355 million
- Debt Level:
  - Moderate (Moody's)

Outstanding Debt

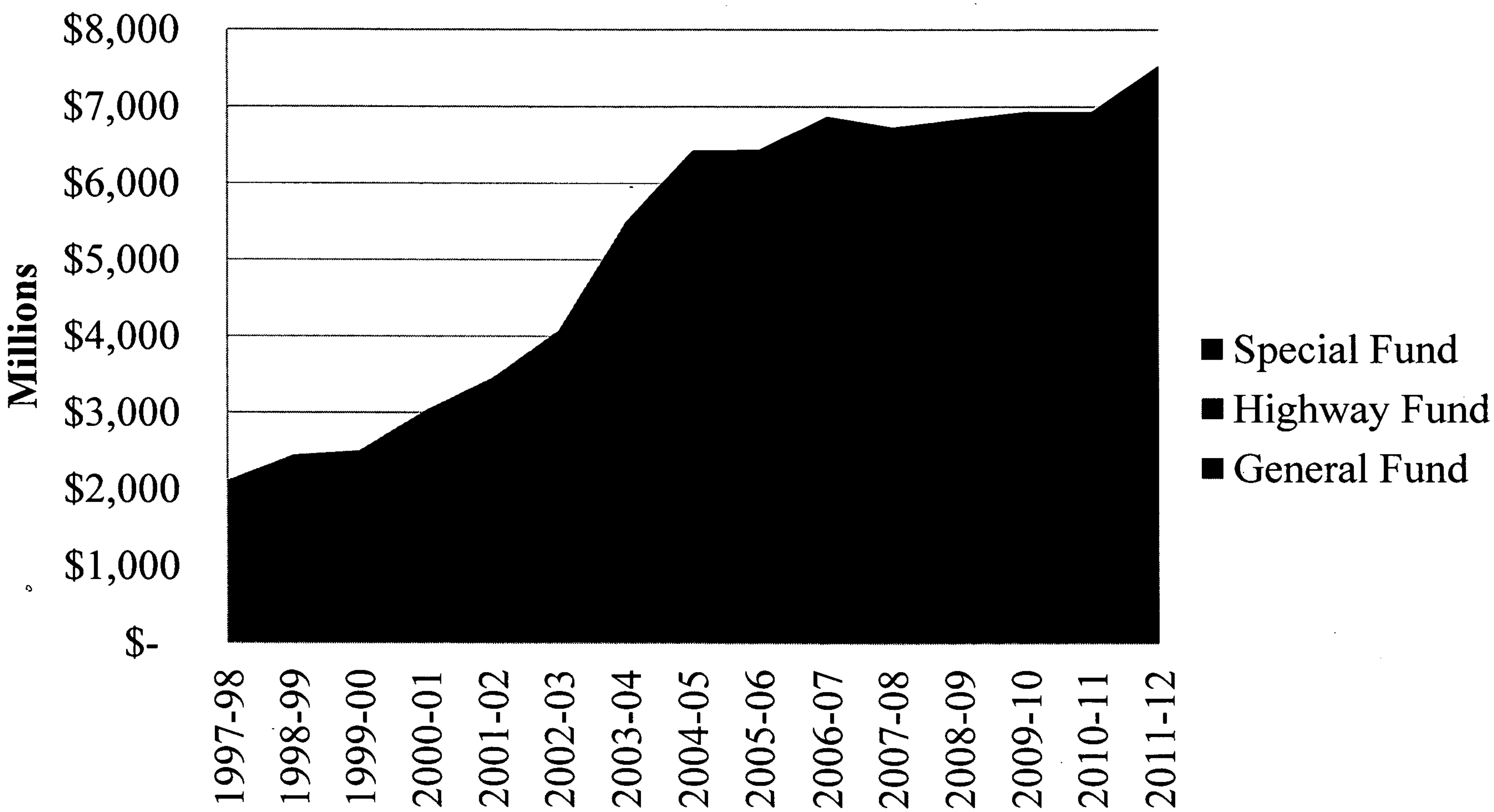
- General Obligation Bonds:
  - $4.47 Billion
- Special Indebtedness:
  - $2.38 Billion
- GAP Funding
  - Highway fund support of NC Turnpike projects
  - $1.05 Billion

June 30, 2012

Special Indebtedness

Project	Amount (Billions)	Percentage
Corrections	$0.8	22%
Psychiatric Hospitals	$0.4	11%
University	$1.6	42%
Parks and Land	$0.2	5%
Repair and Renovation	$0.4	9%
Other	$0.4	11%
Total	**$3.8**	**100%**

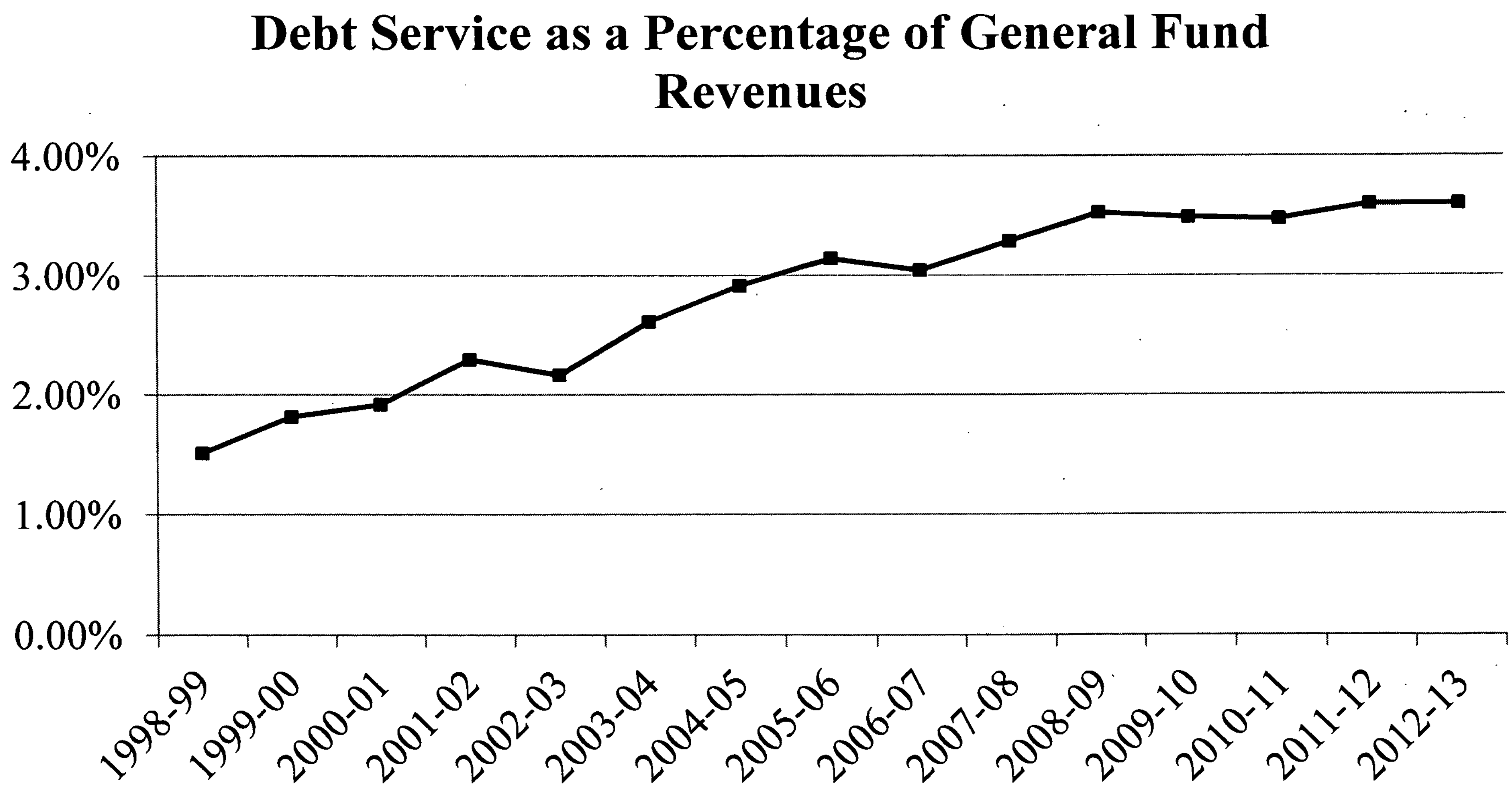
Outstanding Debt History



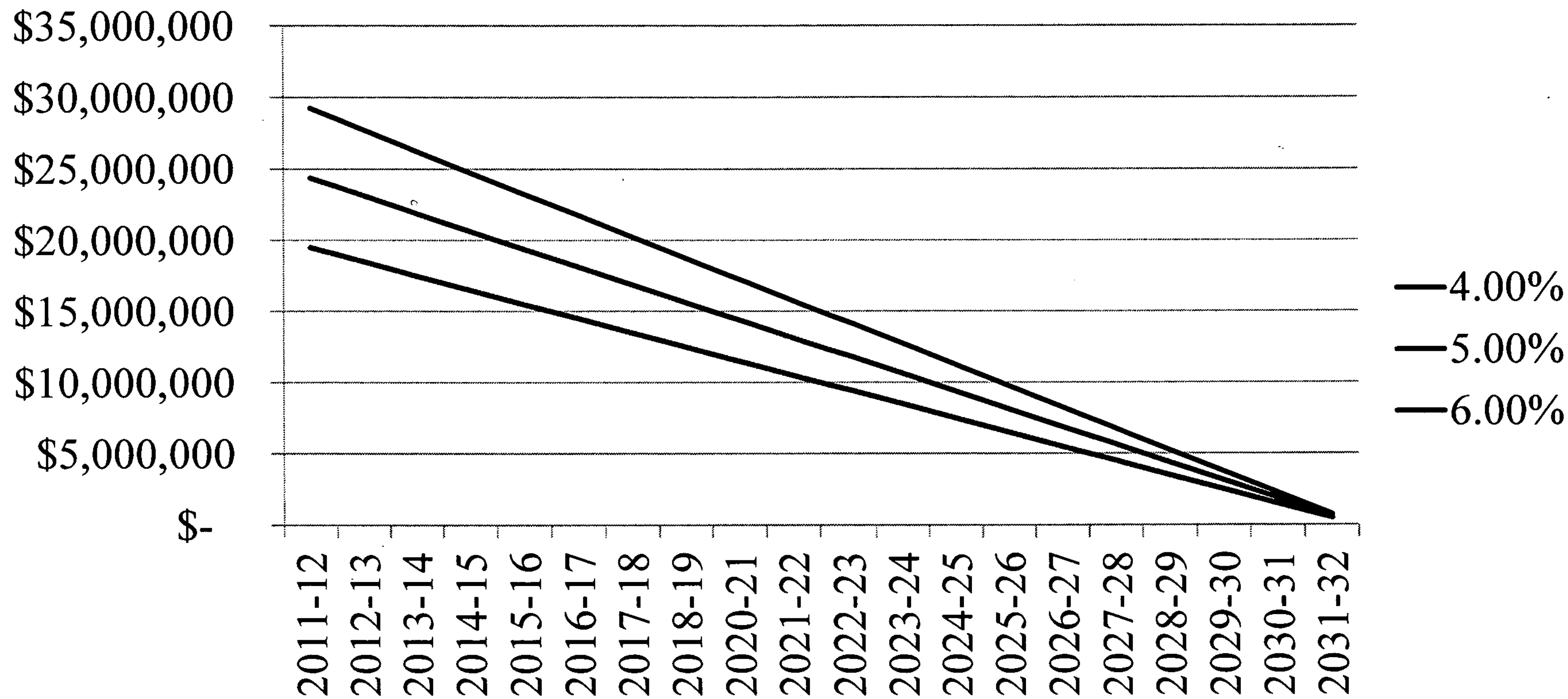
Debt Service

- General Fund Debt Service for the Current Biennium:
  - FY 2011-12: $695,081,502 (3.6%)
  - FY 2012-13: $708,696,719 (3.6%)
- General Obligation vs. Special Indebtedness (Estimates):
  - FY 2011-12: 61% GO vs. 39% Non-GO
  - FY 2012-13: 60% GO vs. 40% Non-GO

Debt Service History



Interest Rate Change Impact



$500 million bond issue, fixed principal, semi annual repayment

University of North Carolina

- Self Liquidating Debt
  - Statutory framework created with the 2000 Higher Education Bonds
- Pledge of "Obligated Resources"
  - Rents, charges, or fees
  - Earnings on the investment of the endowment fund
  - Overhead Receipts
  - No pledge of appropriation* or tuition

University of North Carolina

Approval Required:

- Approval of Board of Governors
- Authorization by General Assembly
  - Authorization typically occurs in the “Self Liquidating Bill”

UNC Outstanding Indebtedness: FY 2012

ASU	$255,172,062	UNC-CH	$1,362,772,538
ECU	$162,935,971	UNCC	$360,679,486
ECSU	$37,415,643	UNCG	$231,355,524
FSU	$25,693,213	UNCP	$79,261,189
NC A&T	$14,405,000	UNCW	$246,855,487
NCCU	$93,958,436	UNCSA	$8,275,000
NCSU	$417,646,121	WCU	$116,938,835
UNCA	$43,661,169	WSSU	$70,887,358

Total: $3,527,913,032

Recent Actions:

- S.L. 2011-66 (Debt Reduction Act of 2011)
  - Canceled $232.4 million in State debt.
- H.B. 491 (Repeal Capital Facilities Finance Act):
  - Passed House
- S.L. 2012-164 (Self-Liquidating Bill)
  - Authorized $218 million in UNC Supported Debt

Deficiencies in State Buildings

- Facilities and Condition Assessment Program (Estimate: FY 2012):
  - $2.3 billion in deficiencies in General Fund supported state agency buildings
  - $2.1 billion in deficiencies in General Fund supported university buildings
  - $89.2 million appropriated for Repair and Renovations for current Biennium (FY 2011-13)

Questions

Mark Bondo
Fiscal Research
markb@ncleg.net
919-733-4910
Suite 619, Legislative Office Building

NORTH CAROLINA HOUSE OF REPRESENTATIVES
COMMITTEE MEETING NOTICE
AND
2011-2012 SESSION

You are hereby notified that the Committee on **House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC** will meet as follows:

DAY & DATE: Tuesday, November 13, 2012
TIME: 12:00 noon
LOCATION: LOB 605
COMMENTS: TBA

Respectfully,
Representative Folwell, Chair
Representative McGee, Chair

I hereby certify this notice was filed by the committee assistant at the following offices at **3 PM** o'clock on **October 31, 2011**.

☐ Principal Clerk
☐ Reading Clerk – House Chamber

Jayne Nelson (Committee Assistant)

From: Jayne Nelson (Rep. McGee)
Sent: Wednesday, November 07, 2012 04:39 PM
To: @HouseInterimCommitteeNotice; Anthony Greco (Speaker Pro Tempore Folwell); David Vanderweide (Fiscal Research); Jayne Nelson (Rep. McGee); Joanna Hogg (Rep. Linda Johnson); Karen Cochrane-Brown (Research); Kristin Walker (Fiscal Research); Marshall Barnes (Fiscal Research); Melissa Carter (Rep. Moffitt); Mildred Alston (Rep. Pierce); Pamela Ahlin (Rep. Cleveland); Rep. Dale Folwell (Speaker Pro Tem); Rep. Darren Jackson; Rep. Garland Pierce; Rep. George Cleveland; Rep. Jeff Collins; Rep. Linda Johnson; Rep. Susi Hamilton; Rep. Tim Moffitt; Rep. William C. McGee; Ruth Merkle (Rep. Hamilton); Stanley Moore (Fiscal Research); Theresa Matula (Research); Wes Householder (Rep. Jeff Collins)
Subject: <NCGA> House House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC Committee Meeting Notice for Tue, 11-13-2012 at 12:00 noon

Room Change

NORTH CAROLINA HOUSE OF REPRESENTATIVES
COMMITTEE MEETING NOTICE
AND
2011-2012 SESSION

You are hereby notified that the Committee on **House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC** will meet as follows:

DAY & DATE: Tuesday, November 13, 2012
TIME: 12:00 noon
LOCATION: LOB 544 LOB
COMMENTS:

Respectfully,
Representative Folwell, Chair
Representative McGee, Chair

I hereby certify this notice was filed by the committee assistant at the following offices at **4 PM** o'clock on **November 07, 2011.**

Principal Clerk
Reading Clerk – House Chamber

Jayne Nelson (Committee Assistant)

House Select Committee on Legacy Costs from the State Health Plan, Pensions, and Employment Security Commission

Agenda

Tuesday, November 13, 2012
12:00 p.m.
Legislative Office Building, Room 544

I. Welcome and Comments

Representative Dale Folwell, Cochair
Representative William McGee, Cochair

II. Retirement:

Retirement Systems Earnings Outlook & Asset Allocation

Expansion of Optional Retirement Program for University System

Steve Toole, Director, Retirement Systems Division, Department of State Treasurer
Sam Watts, Policy Development, Retirement Systems Division, Department of State Treasurer
Larry Langer, Principal Consulting Actuary, Buck Consultants

III. State Health Plan: Younger v. Older Enrollee Trend & Appropriations Implications

David Vanderweide, Fiscal Research Division, NCGA

IV. Employment Security: Plans for Recovering Fraudulent Payments & Collection of Uncollected Premiums

Dempsey Benton, Assistant Secretary for Employment Security, Department of Commerce

V. Committee Discussion

House Select Committee on Legacy Costs from the
State Health Plan, Pensions & ESC
November 13, 2012

The House Select Committee on Legacy Costs from the State Health Plan, Pensions & ESC meeting was held on November 13, 2012 in Room 544 of the Legislative Office Building at 12:00 noon. Representative Folwell presided as Chair. Members present were: Representatives McGee (Cochair), Folwell (Cochair), Cleveland, Collins, Hamilton, Jackson, L. Johnson and Moffitt. Sergeant-at-Arms present were: Bob Rossi and Larry Elliott. A Visitors Sheet is attached. (See attachment 1)

Representative Folwell called the meeting to order at 12:00 pm and welcomed the committee and visitors and thanked them for coming. He stated that between he and Representative McGee there is a lot of institutional knowledge that he hoped would be useful in the time forward. Representative Folwell further stated that he hoped that the members would have questions and answers for the presenters as they tackle these problems. He stated the committee would look at how the rate of return on investments was down due to the large amount in bonds that have a historically low yeild and how to meet the rate of return in the future and the impact that will have on the budget.

Representative Folwell introduced the first presenter, Mr. Steve Toole, Director of the Retirement Systems Division, Department of State Treasurer. Mr. Toole explained that the presentation would be split into a three part Powerpoint. (See attachment 2). Mr. Toole, Mr. Sam Watts and Mr. Larry Langer would give an overview of the NC Retirement Systems Funding, GASB Accounting Changes and New Funding Policies. Mr. Toole stated that the State of North Carolina has a well- funded retirement system that many states are envious of, having made good decisions for many decades. He pointed out that in fiscal year 2012-2013 the legislature had exceeded annual required contributions to offset fiscal year 2010-2011 when they fell short and applauded them for that action.

Mr. Sam Watts, Policy Director, Retirement Systems Division, Department of State Treasurer addressed the committee regarding a more detailed explanation of the Employer Contribution and the effect it has on the entire State and how GASB changes will mean that GASB results can no longer be used for funding: these changes will take effect in 2013. (See attachment 2, pages 4-5)

Mr. Larry Langer, Principal Consulting Actuary for the State Retirement System, Buck Consultants addressed the committee with a presentation to detail the changes in accounting methods with the new GASB changes and its impact on the State Retirement- System. (See attachment 2, pages 6- 8)

Representative McGee asked Mr. Langer, in regard to the new rules coming into place and causing a greater unfunded liability immediately, what flexibility is available for the amortization period? Mr. Langer responded that the new GASB rules have different amortization periods as reflected on statements, but on the funding side, they still have the same actuarial tools to develop funding policies. He further stated that the new measures give them other ways to pay off a pension fund. Representative McGee followed up with a question regarding the change from 9-12 years and what effect that has on the liability. Mr. Langer estimated that it would affect the contribution amounts by 1/2 -3/4 % of payroll.

Representative Collins asked much it would take to pay off the $8.4 billion unfunded liability. Mr. Langer said roughly $14-16 billion range at 7.25 %.

Representative Cleveland asked if under the present policies the State is taking care of the pension plan. Mr. Watts responded that is correct, but may change from year to year due to the market value of assets on the books. Representative Cleveland followed up by asking how volatile this is. Stanley Moore of Fiscal Research gave further explanation regarding the difference between funding and reporting methods. Representative McGee asked if a true statement would be that the reporting might be more volatile than the actuarial requirements and Mr. Langer concurred.

Representative Folwell brought to the attention of the committee that in some years the employer contribution was very low or zero, so contributions with local funds were also very low. This creates a burden on the State as the required contribution that should follow the money is not coming in.

Mr. Watts then spoke on the Moody's changes and referred to the letter from Treasurer Janet Cowell. (See attachment 2, page 9 & attachment 2b)

Mr. Toole then spoke to the Issues on the Horizon. He did forecast that the bond market interest rates will be going up, so some legislation will be coming to address those problems. Also, in reference to Fraud, Waste and Abuse Reviews, There will be some anti-spiking pension legislation that Buck & Associates won the bid to research. (See attachment 2, page 9)

Representative Cleveland asked what the actual return was and Mr. Toole responded that:

10 year - 7.42%
Annual - 2.1%
5 year - 7.36%

Representative Folwell said the 7.25% benchmark had been met and Mr. Toole added that the State plan to invest over 30 years was important to the success of the system.

Representative Collins asked if the Treasurer's Office would be asking for more flexibility next year in asset allocation of the State Pension fund. Mr. Toole responded in response to Representative Folwell statement referencing interest rates and bonds that they would due to not being able to get the return in the bond market that they used to.

Representative Folwell asked what the Treasurers' Office is going to do to make the retirees know the true value of alternative investments. Mr. Toole answered that they are planning to be better communicators of the ebbs and flows through team monitoring and sharing of information.

Mr. David Vanderweide, Fiscal Research, gave an update on the State Health Plan; Younger vs. Older Enrollee Trend & Appropriations Implications. (See attachment 3) Mr. Vanderweide gave an overview of the last 30 years on age and percent of population, the annual claims costs of state employees by age and the age distribution of the State Health Plan Membership. He stated that the health costs plummeted when participants reached Social Security because the State Health Plan becomes secondary to Medicare.

Representative Folwell asked how aggressive would the State have to be to attract more young healthy people to affect the appropriation to the State Health Plan. Mr. Vanderweide responded that the State would have to be very successful in recruiting these people to affect the appropriation, but that other factors such as human resources strategy have to be taken into account also. Representative Folwell asked if changing the calendar year for the State Health Plan would make it more competitive. Mr. Vanderweide responded that to attract more dependents, it would cost the State more because other companies pick up more cost for dependents. Also the State cannot vary the price of premiums based on health as other health insurers; however, that will go away with the Affordable Care Act, so the State may get a more even mix of dependents. Representative Folwell asked if the State would look at going to Obamacare as some companies in his district near Winston-Salem are talking about. Mr. Vanderweide answered he was sure they would want to look at it, but the rules and policies are not totally clear yet, and if they do they would have to look at several strategies, ie: active employees, dependents and non-Medicare retirees and what penalties would have to be paid.

Representative Folwell thanked Mr. Vanderweide the assistance he has given him on this subject during his time at the General Assembly and said that this is one of the most important issues and will continue to be in the years to come.

Mr. Dempsey Benton, Assistant Secretary for Employment Security, Department of Commerce addressed the committee regarding Plans for Recovering Fraudulent Payments and & Collection of Uncollected Premiums. (See attachment 4 a & b) Mr. Benton and Lockhart Taylor explained the process to get an unemployment check and went over fraudulent practices of recipients and following up. At the request of the Representative Cleveland, the criteria for "suitable work" will be provided by the Department.

Representative Linda Johnson asked how the move to computerized service was being implemented and how many claims are coming in that way. Mr. Benton said they have that capability and also have call centers to walk people through the process. He added they will be adding a requirement to come back to the office after a month for an in depth interview to help them get work. Representative Johnson also asked what is being done for those who cannot read or speak a different language. Mr. Benton said he and his staff are also concerned and are working on that issue.

Representative Folwell asked what would be the virtue of having everyone on pay forward whether they are a nonprofit or for-profit. Mr. Benton responded that it is an issue that the legislature may want to take a look at.

Representative Folwell asked if a company has a change of venue, goes out and starts the exact same business under another name, does Uncollected Fraud have the ability to go through the Secretary of States' Office to put that together and have the authority to go after the money that is owed.

Mr. Benton deferred to Mr. Ted Brinn, ESC Tax Manager, who explained that they have two ways to handle that: 1) successorship when someone takes over the previous company and 2) they have a special fraud unit that finds companies that change their names to operate under the same name in the ESC system.

Representative Folwell asked if they are placing tax liens are they going by social security number or tax ID numbers. Mr. Benton replied they are going by tax ID numbers which is the individual unless they are an S2 or an LLC and then they go by the way the company presents itself to the public.

Representative Folwell asked if they are getting tax liens through the State of North Carolina as well as the Federal tax system. Mr. Benton replied that are working on the Fraud and Benefits side. He also said they have not been able to get on line with the IRS tax collectibles but hope to next year. Representative Folwell followed with why they are not going after the under payments since it is ten times larger. Mr. Benton responded that they are prohibited by statute.

Representative Folwell asked if prisoners can collect unemployment. Mr. Benton said they cannot, but last summer they found that some were and corrected the situation. Representative Folwell followed up by asking if any checks were going out of the country to illegal immigrants. Mr. Benton responded he was not aware of that and he would check on it.

Representative Folwell asked if anything has changed in the last year to stop overpayments. Mr. Benton replied they have added supervisors and staff to improve on their work and to better communicate with employers.

Representative Collins asked if we pay unemployment to people who move out of the State. Mr. Benton replied that we do because it is a national program.

Stanley Moore answered a previous question that Representative Folwell asked about persons on unemployment who receive a pension. He said pensions are unassignable and offset by any other employment, so they are not subject to collection by statute.

Representative Folwell asked if one can start a training program and get their unemployment debit card reloaded. Mr. Taylor and Benton said there are provisions to allow them to stay in the unemployment program, but it is a small amount since they are not earning wages. If they enroll in community college they would have to update each week.

Representative Folwell requested a graph of the United States Department of Labor Estimating Approach for Percentage of Overpayments for the Underfunded comparing how the State of North Carolina has done in relation to other states in relation to the employers we have not collected from, the negative balance. Mr. Benton said they would work on that.

Representative Folwell that Mr. Benton and his staff and recognized Representative McGee to ask a question about the Optional Retirement Plan offered by UNC, regarding how the defined benefit plan is handled if a person has moved into the ORP after 15 years. Stanley Moore answered that a law was passed that gives the two plans reciprocity so that you can get retirement eligibility on the years you have accumulated both before and after the point you switch to the ORP.

Representative Folwell announced that there will be 1 or 2 more meetings to get a report ready and thanked everyone who worked on the committee.

The meeting adjourned at 1:57 pm.

Dale T. Folwell

Representative Dale Folwell,
CoChair (presiding)

Jayne A. Nelson

Jayne A. Nelson,
Committee Assistant

Representative William C. McGee,
CoChair

11-13-12 ATT. 1

VISITOR REGISTRATION SHEET

LEGACY COSTS FROM STATE HEALTH PLAN 11-13-12

Name of Committee Date

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Russ Eubanks	NCACC PO Box 2448 Ral NC 27602
JOE LANCER	NELSON MULLINS
LOTTA CRABTREE	DST - SHP
Lindsey Hosner	DST STAFF
Ed Regan	NCRGEA
Allison Waller	Nelson Mullins
Susanna Davis	Williams Mullen
Rita Harris	NC Commerce
Kathleen Robinson	NCRMA
Daniel Amburn	NCRMA
Chris Hollis	The Dark Side

VISITOR REGISTRATION SHEET

LEGACY COSTS FROM STATE HEALTH PLAN 11-13-12

Name of Committee **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Mitch Leonard	SEANC
Chuck Stone	SEANC
CSHollis	TSS
Sohaei	DST
Evelyn Hawthorne	~~Other~~
Henry Payne	NCJC
TED BRINN	DES
Lockhart Taylor	DES- Dept of Commerce
Dempsey Benton	Div. of Employment Security - Comm.

11-13-12 Att 2 Retirement - Steve Toole

State Retirement Valuations/Annual Required Contribution Information

Presented by
Steve Toole & Sam Watts, N.C. Department of State Treasurer
Larry Langer, Buck Consultants

North Carolina Department of State Treasurer
Learn Invest Grow Prosper

November 13, 2012

Agenda

- Overview of NC Retirement Systems Funding
- GASB Accounting Changes
- New Funding Policy
- Questions

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NC Retirement Systems

As of December 31, 2011

	2009-2010	2010-2011	2011-2012
Total Assets in N.C. Retirement Systems	$65.3 billion	$74.9 billion	$74.5 billion
Amount Delivered to Retirees	$4.2 billion	$4.3 billion	$4.6 billion
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Average Hold Times for RSD Call Center	1:20 minutes (80 seconds)	0:51 (51 seconds)	1:03 minutes (63 seconds)
Number of New Retirements Processed During the Year	13,472	14,642	15,992
Total Assets in Supplemental 401(k)/457 Plans	$5.1 billion	$6.3 billion	6.5 billion
Number of 401(k) Plan Members	221,052	224,644	227,711
Number of 457 Plan Members	30,692	34,149	38,268

NC Accounting practices

North Carolina takes a more conservative approach to funding the plan than many other states.

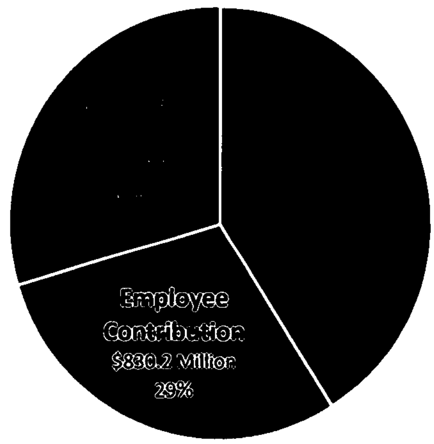
North Carolina:

- Currently assumes a 7.25 percent rate of return, the fourth lowest discount rate in the country for a statewide plan.
- Values assets using a simple methodology that helps to stabilize the annual required contribution by phasing in investment gains and losses over the course of five years.
- Has committed to paying off its liabilities more quickly than most plans by employing a 12-year amortization period. The average amortization period among statewide plans is 24.6 years.

How the funding process works

Three Annual Sources of Funding

- Employee Contributions
- Investment Income
- Employer Contributions
  - Appropriations by the General Assembly



How the funding process works

The Appropriations Process – State System

1. Salary estimate is created
2. Retirement system actuary determines the Annual Required Contribution (ARC)

   ARC is the percentage of state payroll state agencies and school systems will pay for each employee to participate in the retirement system

ARC/Funded Status for 2013 – State System

- 2012 Preliminary Valuation Estimate = 7.69%
- Final Needed = 8.02%
  - o Increased due to retiree COLA of 1%
- Appropriated = 8.33%

ARC/Funded Status for 2013 – State System

- January Projection: 8.89% (no COLA assumed)
- 2013 Preliminary Estimate from Valuation: 8.69%
  - o 0.36% more than current appropriation of 8.33%
  - o Need $50 million total to meet ARC
  - o Need $36 million General Fund to meet ARC

How GASB changes came about

The Government Accounting Standards Board (GASB) is an independent organization that establishes the generally accepted accounting principles and other standards of financial reporting for state and local governments.

1994 - GASB issues its original pension standards

- Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*
- Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*
- GASB created the Annual Required Contribution (ARC), which has become the national pension funding standard.

2012 - GASB approves two new Statements that change how governments calculate and report the costs and obligations associated with pensions.

- Unlike the previous Statements, these new Statements do not address pension funding, which the GASB believes is "a policy decision for elected officials to make as part of the government budget approval process."

2013 - New GASB standards take effect

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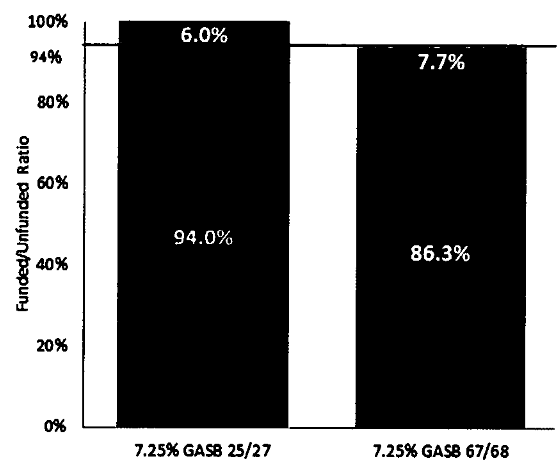
Funding level and GASB changes



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GASB Highlights

- Highlights of GASB Changes:
  - Separates Funding Policy from Accounting Expense
  - Balance sheet of employer will reflect the funded status of plan
    - On Market Value basis
    - Entry Age Normal Cost Method must be used
    - Discount rate may be different than funding discount rate
  - Additional financial statement notes and supplementary information

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GASB 67 and 68

Accounting/Reporting vs. Funding Policy

Accounting and financial reporting are de-linked from actuarial funding policy:

- Funding Policy
  - Annual Required Contribution (ARC) is eliminated
  - New "Actuarially Determined Contribution"
    - Based on plan's funding policy
    - Disclosed in Required Supplementary Information
  - Bottom line: NO change in the Plan's current Funding Policy Contribution, methods or assumptions, but perhaps a need to state a Funding Policy to the extent the policy is linked to GASB 25/27
- Accounting and Reporting
  - Annual Pension Cost (APC) replaced by Pension Expense
  - Net Pension Liability (NPL) added to balance sheet for all employers (replaces Net Pension Obligation)

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GASB 67 and 68

Effective Date for Pension Plan Financials

- **Pension plans** are required to meet the new standards for financial reporting under GASB No. 67 for fiscal years beginning after June 15, 2013
  - 2013-2014 Fiscal Year for North Carolina Retirement Systems
  - All required disclosure / supplemental information required other than Pension Expense
  - Will require disclosure of the Total Pension Liability (TPL) and Net Pension Liability (NPL) a year before required in employer financial statements

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GASB 67 and 68

Effective Date for Employer Financials

- **Employers** are required to meet the new accounting standards under GASB No. 68 for fiscal years beginning after June 15, 2014.
  - 2014-2015 Fiscal Year for North Carolina Retirement Systems
  - Inclusion of NPL on employer balance sheet rather than NPO
  - Inclusion of Pension Expense in employer income statement
  - All required disclosure / supplemental information required
  - Will require allocation of Pension Expense and NPL for cost sharing employers

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GASB 67 and 68

GASB Estimates for North Carolina Retirement Systems

- Buck Consultants estimated the impact of GASB Changes
  - Compared estimated NPL (GASB 68) to NPO (GASB 27)
  - For State and Local Plan
  - As if GASB 68 in effect for current and prior two valuations
- Basis for NPL estimates:
  - Assume current discount rate (7.25%) not impacted by asset "run out" date
  - Entry Age Normal cost method for accrued liabilities (no change to State Plan)
  - Market Value of Assets
  - All other assumptions based on actuarial valuations as of 12/31/2009, 12/31/2010 and 12/31/2011
- Results presented on next two slides

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GASB 67 and 68

GASB Estimates for State Plan

Estimated NPL (GASB 67/68) vs. NPO (GASB 25/27)

GASB 67/68			
Valuation Date	**12/31/2011**	**12/31/2010**	**12/31/2009**
Market Value of Assets	$ 53,402,204,951	$ 54,108,134,326	$ 50,382,551,504
Entry Age Accrued Liability	$ 61,846,696,903	$ 59,876,065,931	$ 58,178,272,142
Unfunded Actuarial Accrued Liability	$ 8,444,491,952	$ 5,767,931,605	$ 7,795,720,638
Funded Ratio	86.3%	90.4%	86.6%
Run Out Date	None	None	None
Discount Rate	7.25%	7.25%	7.25%
Measurement Date	12/31/2011	12/31/2010	12/31/2009
Reporting Date (fiscal year ending)	**6/30/2012**	**6/30/2011**	**6/30/2010**
Net Pension Liability (NPL) (balance sheet liability)	$ 8,444,491,952	$ 5,767,931,605	$ 7,795,720,638

GASB 25/27			
Valuation Date	**12/31/2011**	**12/31/2010**	**12/31/2009**
Actuarial Value of Assets	$ 58,125,010,880	$ 57,102,198,448	$ 55,818,099,117
Entry Age Accrued Liability	$ 61,846,696,903	$ 59,876,065,931	$ 58,178,272,142
Unfunded Actuarial Accrued Liability	$ 3,721,686,023	$ 2,773,867,483	$ 2,360,173,025
Funded Ratio	94.0%	95.4%	95.9%
Run Out Date	N/A	N/A	N/A
Discount Rate	7.25%	7.25%	7.25%
Reporting Date (Fiscal Year Ending)	**6/30/2012**	**6/30/2011**	**6/30/2010**
Net Pension Obligation (NPO) (balance sheet liability)	$193,352,000	$ 206,646,000	$ (36,207,000)
Increase in Balance Sheet Liability	$8,251,139,952	$5,561,285,605	$7,831,927,638

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GASB 67 and 68

About Moody's changes

Moody's Investors Service provides credit ratings, research, and risk analysis for more than 22,000 public finance issuers.

- Moody's is one of three agencies that assign credit ratings for municipal bonds.
- In July, Moody's issued a proposal to implement several adjustments to state and local pension plan liability and cost information.

Cost Adjustments:

- Are not intended to be used for funding decisions
- Require that the state discount liabilities based on a rate determined by the high-grade long-term corporate bond index of 5.5 percent
- Use the market value of assets rather than the actuarial value.

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Issues on the Horizon

- New Funding Policy
- Experience Analysis
- Asset Allocation Study
- Fraud, Waste and Abuse Reviews

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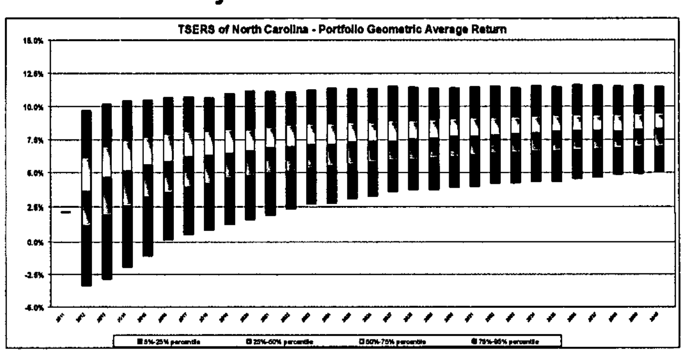
Questions?

Appendix A

Investment Portfolio Projected Return



Portfolio Geometric Average Return

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
95th percentile	2.1%	9.7%	10.2%	10.4%	10.5%	10.6%	10.7%	10.6%	11.0%	11.1%	11.1%	11.1%	11.2%	11.3%	11.3%
75th percentile	2.1%	6.1%	7.0%	7.4%	7.7%	7.9%	8.1%	8.1%	8.2%	8.2%	8.4%	8.6%	8.7%	8.7%	8.7%
50th percentile	2.1%	3.6%	4.6%	5.1%	5.5%	5.8%	6.2%	6.3%	6.4%	6.6%	6.9%	6.9%	7.1%	7.1%	7.3%
25th percentile	2.1%	1.2%	1.9%	2.5%	3.2%	3.5%	3.9%	4.2%	4.6%	4.8%	4.9%	5.1%	5.3%	5.5%	5.6%
5th percentile	2.1%	-3.4%	-2.9%	-1.9%	-1.1%	0.2%	0.5%	0.9%	1.3%	1.6%	1.9%	2.3%	2.7%	2.7%	3.0%

	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
95th percentile	11.3%	11.5%	11.4%	11.3%	11.4%	11.5%	11.5%	11.4%	11.5%	11.5%	11.6%	11.5%	11.5%	11.6%	11.5%
75th percentile	8.7%	8.9%	8.9%	9.0%	9.1%	9.1%	9.1%	9.2%	9.2%	9.3%	9.3%	9.3%	9.4%	9.4%	9.5%
50th percentile	7.4%	7.3%	7.5%	7.6%	7.7%	7.7%	7.8%	7.9%	8.0%	8.1%	8.1%	8.1%	8.1%	8.2%	8.3%
25th percentile	5.8%	5.9%	6.0%	6.1%	6.2%	6.3%	6.5%	6.5%	6.6%	6.6%	6.7%	6.8%	6.8%	6.9%	7.0%
5th percentile	3.2%	3.6%	3.7%	3.7%	3.9%	3.9%	4.2%	4.2%	4.3%	4.3%	4.5%	4.6%	4.8%	4.9%	5.0%

Appendix B: UNC Optional Retirement Plan

- Optional Retirement Plan for UNC Employees
- Certain UNC Employees are Eligible
  - All UNC Health Care employees are eligible
  - Effective January 1, 2013 all new hires are eligible
- Nearly half of eligible employees choose ORP
- Impact on Retirement System
  - Negligible for new employees
  - Material if all existing employees were allowed to choose

Appendix C: Sources

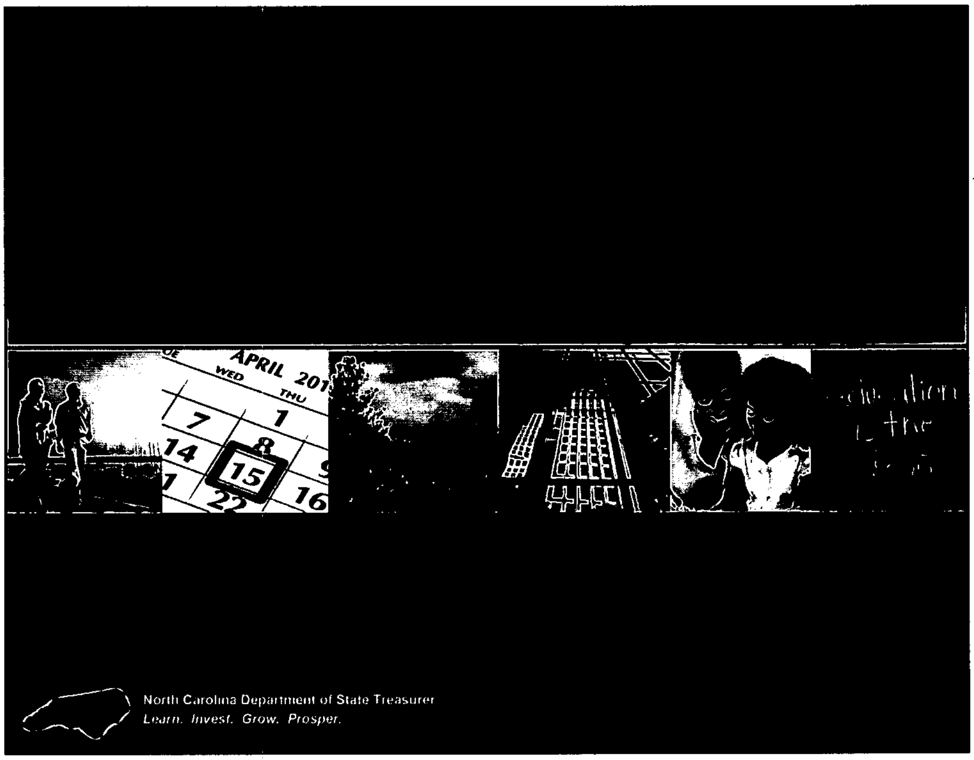
- Despite using some of the most conservative assumptions, we remain in the top 10 in funded status.

  Source: National Association of State Retirement Administrators. (2012). Public Fund Survey. http://www.publicfundsurvey.org/publicfundsurvey/survey.asp
- We assume a 7.25% rate of return on investments, the fourth lowest among state plans.

  Source: National Association of State Retirement Administrators. (2012). NASRA Issue Brief: Public Pension Plan Investment Return Assumptions. http://www.nasra.org/resources/issuebrief120626.pdf
- We use an amortization period of 12 years, while the average among state plans is 24.6 years.

  Source: National Conference on Public Employee Retirement Systems. (2012). The NCPERS 2012 Fund Membership Study.http://www.ncpers.org/Files/2012_ncpers_public_fund_study_report.pdf
- We use a more conservative actuarial cost method that many of the states that report a higher funded ratio.

  Source: National Association of State Retirement Administrators. (2012). Public Fund Survey. http://www.publicfundsurvey.org/publicfundsurvey/survey.asp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2a 11-13-12

About the North Carolina Retirement Systems

North Carolina Retirement Systems

The North Carolina Retirement Systems is a division of the Department of State Treasurer, which administers the retirement and benefit plans that cover the vast majority of public employees in the state. The Division administers both the public pension plans and the NC Supplemental Retirement Plans (optional defined contribution plans). It is the 32nd largest pension fund in the world and the 11th largest public pension fund in the United States. The North Carolina Retirement Systems consistently ranks as one of the top well-funded public pension plans in the United States. It was recently recognized by the National Institute of Retirement Security for remaining well-funded despite two severe economic downturns.

The North Carolina public pension plans provide benefits for more than 875,000 North Carolinians, including:

- K-12 and University Staff
- State employees
- Firefighters
- Police officers
- Other public workers

What We Do

- The N.C. Retirement Systems administers the retirement and fringe benefit plans created under state law for active and retired public employees who are members of the Systems. Staff continuously reviews features and options within the defined benefit programs to ensure that plans and benefits are sustainable over time and are an efficient use of employees' and taxpayers' contributions.
- The N.C. Retirement Systems also administers additional benefit plans, including the NC 401(k) Deferred Compensation (NC 457), and NC 403(b) plans, Disability, Death and certain benefits unique to law enforcement officers.
- The retirement systems and benefit plans assists public employers in the state with recruiting and retaining skilled employees for careers in public service by providing valuable post-employment benefits, including replacement income at retirement, as well as disability or survivor benefits.
- The N.C. Retirement Systems goal is that every N.C. public servant be financially prepared for retirement, with 80% of his or her pre-retirement income to enjoy the same standard of living in retirement.

The Basic Functions

The Retirement Systems administers four major retirement systems and 11 smaller systems and pension funds:

System	No. of Members	Value
Teachers' and State Employees' Retirement System (TSERS)	600,378	$54 billion
Local Governmental Employees' Retirement System (LGERS)	217,688	$18.2 billion
Consolidated Judicial Retirement System (CJRS)	1,183	$431 million
Legislative Retirement System (LRS)	531	$27 million
Firemen's and Rescue Squad Workers' Pension Fund	51,254	$317 million*
National Guard Pension Plan	14,631	$86 million
Legislative Retirement Fund	10	--
Registers of Deeds' Supplemental Pension Fund	186	$46.1 million

** Data as of June 30, 2011, all other values as of December 31, 2011.*

Supplemental Plans and Benefit Programs:

Program/Plan	Service
Disability Income Plan	Provides equitable replacement income for eligible members temporarily or permanently disabled
Public Employees' Social Security Agency	Administers the state's responsibility under the Social Security Agreement of July 16, 1951
Teachers' and State Employees' Benefit Trust	Provides group death benefits for members of TSERS and LGERS. The Trust also includes the Separate Insurance Benefits Plan for state and local governmental law enforcement officers
Supplemental Retirement Income Plan – NC 401(k)	Provides members with voluntary savings/investment program to supplement retirement income
Supplemental Retirement Income Plan – NC 403(b)	Provides school systems staff with a voluntary savings/investment program to supplement retirement income. Program will be available 2013
Public Employee Deferred Compensation Plan – NC 457	Provides members with voluntary savings/investment program to supplement retirement income
NC 401(k)/NC 457 Transfer Benefit	Enables members to receive an additional monthly lifetime benefit (annuity) by transferring all or a portion of the balance in their NC 401(k) and/or NC 457 account(s) to TSERS or LGERS at or after retirement
Contributory Death Benefit for Retired Members	Offers an optional benefit that gives retirees a one-time deat benefit of up to $10,000
Supplemental Insurance	Provides retired members with optional supplemental insurance, i.e. dental, vision, accident or life
Health Trust Fund	Manages trust fund for retired members who receive health insurance through the State Health Plan of North Carolina

Retirement Systems Division Statistics

As of December 31, 2011

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NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

September 28, 2012

Marcia Van Wagner
Vice President – Senior Analyst
Moody's Investors Service
7 World Trade Center at 250 Greenwich Street
New York, NY 10007

Dear Ms. Van Wagner,

Thank you for the invitation to comment on your proposal, "Adjustments to US State and Local Government Reported Pension Data." The North Carolina Department of State Treasurer is particularly interested in Moody's decision on this matter because we value North Carolina's distinction as a triple-A rated state. The North Carolina Retirement Systems, operated by the Department, is the 32nd largest pension fund in the world and the 11th largest in the United States. It serves more than 850,000 North Carolinians, including teachers, State employees, firefighters, police officers, and other public workers. We are providing corrections to the data Moody's asked us to review as well as commenting on the purpose and methodology of the proposal.

The Department supports improving comparability of pension information across governmental entities. Moreover, the Department appreciates your efforts to increase transparency and better inform the public and investors on pension obligations. However, we are concerned that reporting new and different pension liability and cost information at the same time that public plans are beginning the transition to the new GASB pension accounting standards will create confusion about both new measures. Furthermore, we have concerns about viability of the proposal given several methodological issues.

Data Corrections for North Carolina

With regard to your request that we review the data you provided with your draft, we have several concerns regarding the information you are using about the North Carolina Teachers' and State Employees' Retirement System ("TSERS"). We find the plan data is accurate for calendar year 2009, except for the market value of assets. The market value of assets for TSERS as of December 31, 2009 was $50,382,551,504 rather than the $48,773,836,000 cited in your draft. The correct data are detailed in a table attached to this letter. The actuarial valuation for TSERS is completed on a calendar year basis, rather than on the State's fiscal year. We also request that you include the numbers we are providing in the attached table for calendar year 2010.

N.C. Department of State Treasurer's Concerns with Moody's Proposed Methodology

The Department is concerned about the combined debt and pension liability disclosures that will result from the proposed assumptions for calculating pension liabilities. The true long-term pension liability and funding (budgetary) requirements may be distorted by the use of market value of assets

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at an inconsistent date, standardized assumptions about discount rates, durations and amortization periods, and inconsistent actuarial cost methods. A combined figure based upon these assumptions may result in an inaccurate measure of a government's future obligations and its ability to meet those obligations. This could create the unintended consequence of forcing governments to reduce pension obligations even when such changes are unwarranted or unwise. The Department wishes to raise five concerns with the methodological approach proposed by Moody's:

1. *Asset Valuation Smoothing Should Be Employed*

Asset smoothing is a necessary and important element in measures designed to inform policymakers regarding funding of annual contributions toward long-term pension obligations. We encourage Moody's to use an assumption involving some smoothing as well, perhaps an average of what is currently used by various plans.

2. *Consistent Reporting Dates Should Be Used*

In establishing comparability, it is important in our view to address the inconsistency in valuation dates among plans. Moody's request for comment cites the variability in one-year investment returns as reported by the Boston College Center for Retirement Research as a basis for rejecting the idea of bringing valuations to a common date with the use of an average growth factor. The Department is skeptical of this approach since investment strategies across major public plans are relatively consistent. We view it as much more likely that the variability caused by inconsistent reporting dates exceeds the variability caused by between-plan differences in investment returns. For example, if our valuation date was pegged at June 30, 2009, which is the close of the fiscal year for North Carolina, we would have reported our one-year investment return as *negative* 14.22%. However, for our actual valuation date, December 31, 2009, we reported a *positive* 15.08%. As you can see, the variance, using two common reporting dates, is significant.

3. *Duration Estimates Should Be Tailored to Individual Plans*

With regard to your prescribed duration estimates, the Department believes that the harm in standardizing these measures may outweigh the benefit. Due to differences in plan provisions and employee populations across plans, the appropriate duration estimate for benefits for a given plan may be substantially different from 13 years. Similarly, the appropriate duration estimate for active employees may differ substantially from 17 years. We encourage Moody's to consider using values provided by plan actuaries or determining a method of calculating values based on plan provisions and the age and service distributions of members.

4. *Proposed Discount Rate Should Be Related to Pension Obligations*

Moody's choice of "high grade long-term corporate bond rate" does not appear to be related to State pension obligations. Such plans can typically earn at a greater rate than 5.5% and can borrow at a lower rate. It would be more useful to employ a discount rate which recognizes the fact that public sector pension plans are significantly different from their private sector counterparts. In addition, we would encourage Moody's to use a discount rate that more accurately reflects what various plans use now, again perhaps an average or median.

5. *Actuarial Cost Methods Used for Deriving Data Should be Consistent*

Your request for comment does not address differences in actuarial cost methods. If there is concern about comparability across plans, a consistent actuarial cost method, likely entry age normal, should be considered.

Timing of Moody's Release of the New Measure

Releasing the new measure this fall will likely create confusion because retirement plans are beginning the implementation of new GASB rules. The Department suggests postponing the release of the measure until an additional calendar year of data is available. This would allow time for plan staff and investors to fully understand the adjustments.

Additionally, since Moody's may revise its methodology, we request another opportunity to review the data prior to its release. As we have pointed out above, changing the methodology can affect the data. We also believe it prudent for Moody's to rely on plans to provide data directly rather than to glean information from public sources that may not have complete or finalized information.

In conclusion, as the National Association of State Treasurers ("NAST") has said, "Moody's proposal represents an important change for public pensions and has the potential to make a substantive improvement in the public transparency on long-term governmental pension obligations." We agree with NAST and sincerely hope that we can reach a consensus on the approach and methodology to accomplish this shared goal.

The Department appreciates Moody's efforts to provide a comment period on these issues and welcomes further collaborative efforts.

Sincerely,

Janet Cowell

Janet Cowell
Treasurer of North Carolina

Attachment: *Corrected Data for Review of Moody's Proposal*

Corrected Data for Review of Moody's Proposal

	Moody's Incorrect 2009 Data	Correct Data for 2009 Using Moody's Methodology	Correct Data for 2010 Using Moody's Methodology
State share			
As Reported			
AAL	$58,178,272	$58,178,272	$59,876,065
AVA	$55,818,099	$55,818,099	$57,102,198
MVA	$48,773,836	$50,382,551	$54,108,134
UAAL	$2,360,173	$2,360,173	$2,773,867
Funded Ratio	95.9%	95.9%	95.4%
Discount Rate	7.25%	7.25%	7.25%
Plan Total Normal Cost	$1,624,821	$1,630,123	$1,451,586
State Total Normal Cost	$1,624,821	$1,630,123	$1,451,586
Plan Employee Contribution	$795,182	$795,182	$783,230
State Employee Contribution	$795,182	$795,182	$783,230
ARC	$483,205	$483,205	$902,661
Contributions	$483,205	$483,205	$663,207
Adjusted			
AAL	$72,051,621	$72,051,621	$74,154,274
AVA	$55,818,099	$55,818,099	$57,102,198
MVA	$48,773,836	$50,382,551	$54,108,134
UAAL	$23,277,785	$21,669,070	$20,046,140
Funded Ratio	67.7%	69.9%	73.0%
Discount Rate	5.50%	5.50%	5.50%
State ENC	$1,353,974	$1,360,986	$1,136,806
Amort. UAAL PMT	$2,030,837	$1,890,487	$1,748,897

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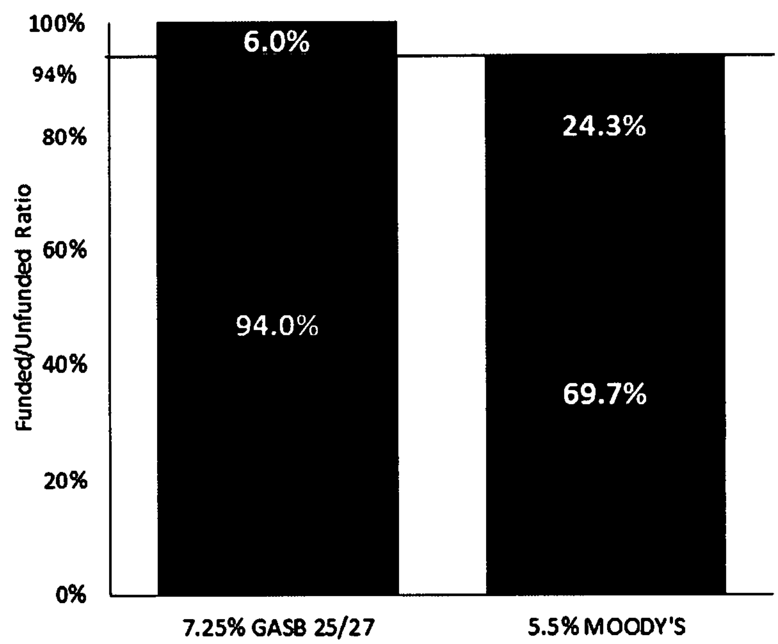
NEW REPORTING STANDARDS FOR MOODY'S INVESTORS SERVICE

Moody's Investors Service provides credit ratings, research, and risk analysis for more than 22,000 public finance issuers. Moody's is one of three agencies that assign credit ratings for municipal bonds. In July, Moody's Investors Service issued a proposal to implement several adjustments to state and local pension plan liability and cost information.

As an agency that issues state and local government bond ratings, Moody's is particularly interested in adopting a measure that improves consistency in actuarial standards so that pension data can be used to make statistical comparisons across plans. In the initial Request for Comments on the proposal, Moody's clarifies that the adjustments are not intended to be used for funding decisions.



NORTH CAROLINA EMPLOYS SOME OF THE MOST CONSERVATIVE ASSUMPTIONS

In keeping with our state's long history of fiscal responsibility, the Teachers' and State Employees' Retirement System of North Carolina takes a more conservative approach to funding the plan than many other states.

Assumed rate of return	Asset valuation methodology	Amortization period
The assumed rate of return is one of the most important assumptions in determining the plan's liabilities. Currently the North Carolina Retirement Systems assumes a 7.25 percent rate of return, which is the fourth lowest rate in the country for a statewide plan.	The North Carolina Retirement Systems values assets using a simple methodology that helps stabilize the annual required contribution by phasing in investment gains and losses over the course of five years.	North Carolina has committed to paying off its liabilities more quickly than most plans by employing a 12-year amortization period. The average amortization period among statewide plans is 24.6 years.

CHANGES TO THE PENSION'S FUNDED RATIO

TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM OF NORTH CAROLINA

There has been much discussion in the national news about how the Governmental Accounting Standards Board's (GASB) new standards will affect financial reporting for state and local pension plans. Moody's Investors Service has added to the discussion by proposing to implement several adjustments to state and local pension plan liability and cost information.

The N.C. Department of State Treasurer has created this fact sheet to show how different methodologies will affect the funded ratio of the North Carolina pension fund.

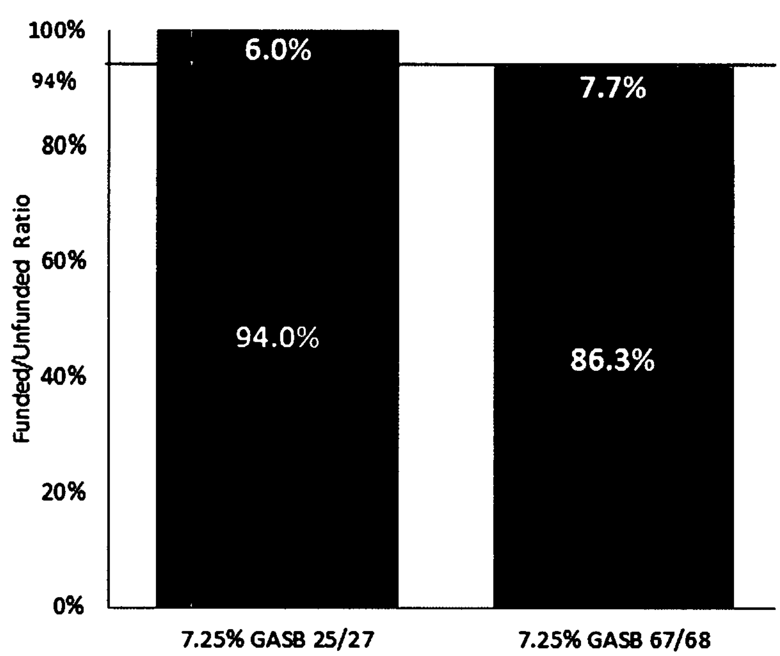
NEW REPORTING STANDARDS FOR GASB

The Government Accounting Standards Board (GASB) is an independent organization that establishes the generally accepted accounting principles (GAAP) and other standards of financial reporting for state and local governments.

- **1994** - GASB issues its original pension standards, Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers.* In these statements, the GASB created the Annual Required Contribution (ARC), which has become the national pension funding standard.

- **2012** - GASB approves two new Statements that change how governments calculate and report the costs and obligations associated with pensions. Unlike the previous Statements, these new Statements do not address pension funding, which the GASB believes is "a policy decision for elected officials to make as part of the government budget approval process."

- **2013** - New GASB standards take effect, decreasing the funded ratio for the year ended December 31, 2011 to 86.3 percent (see below).



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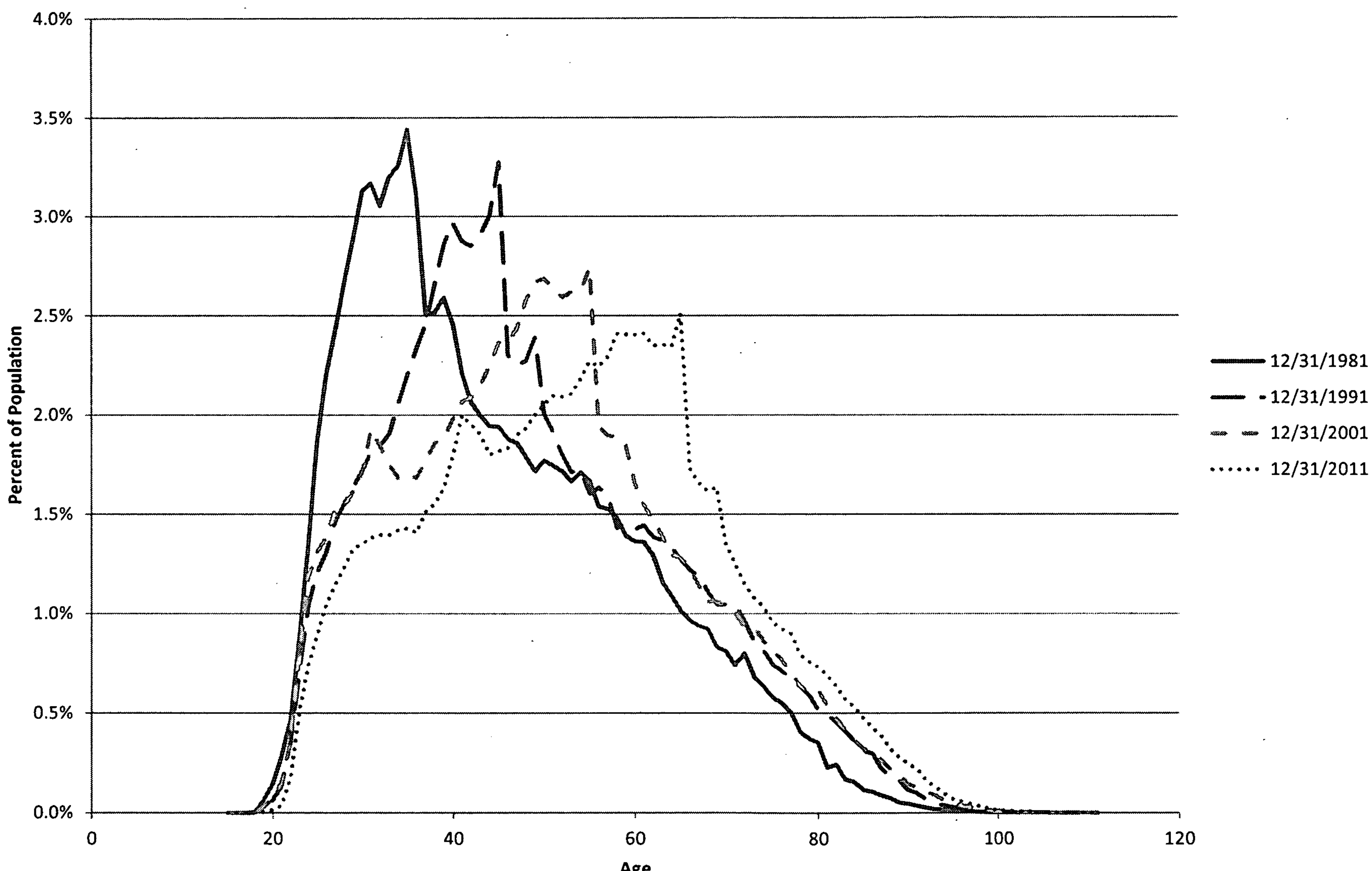
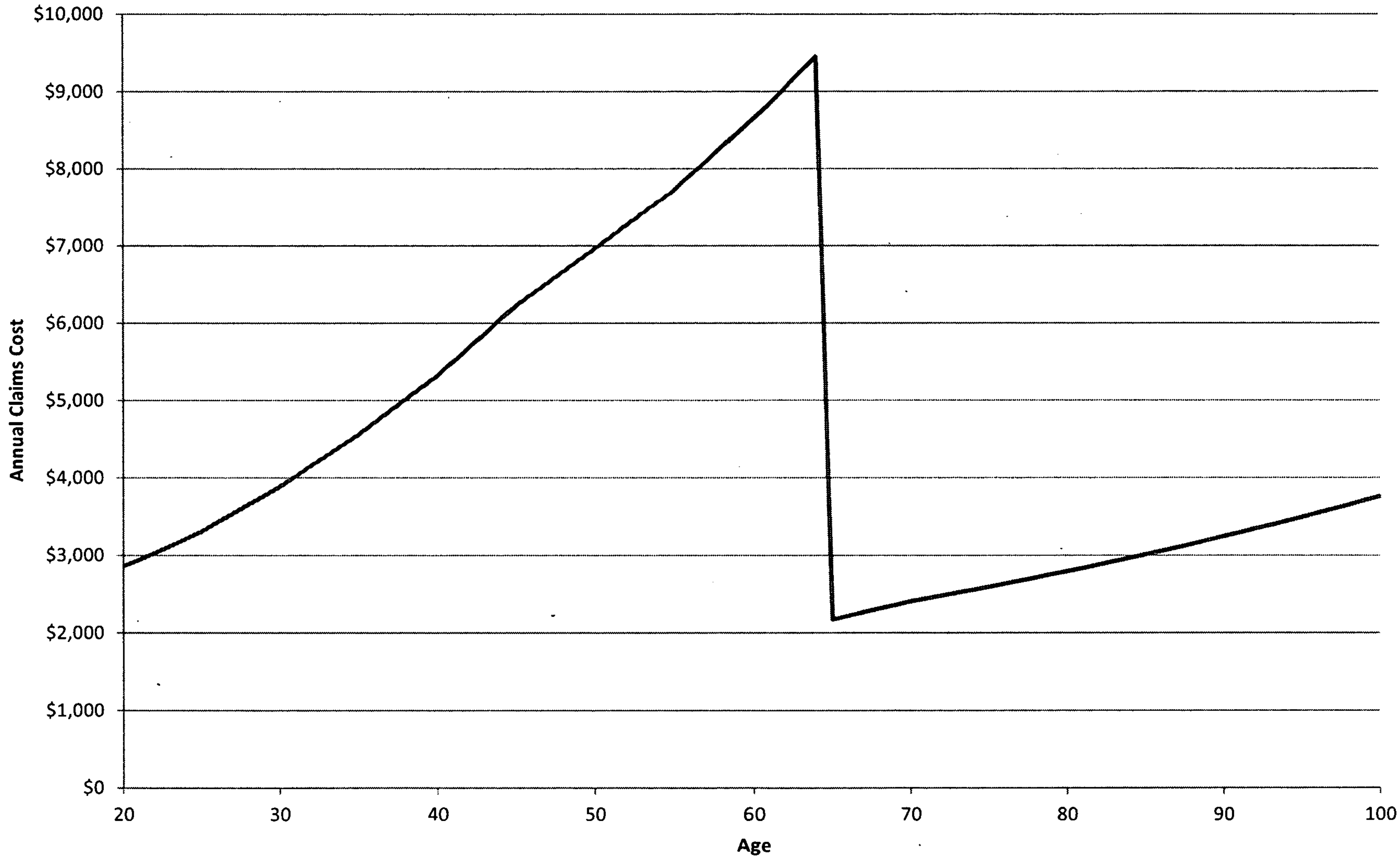
Age Distribution of TSERS Actives, Retirees, and Dependents

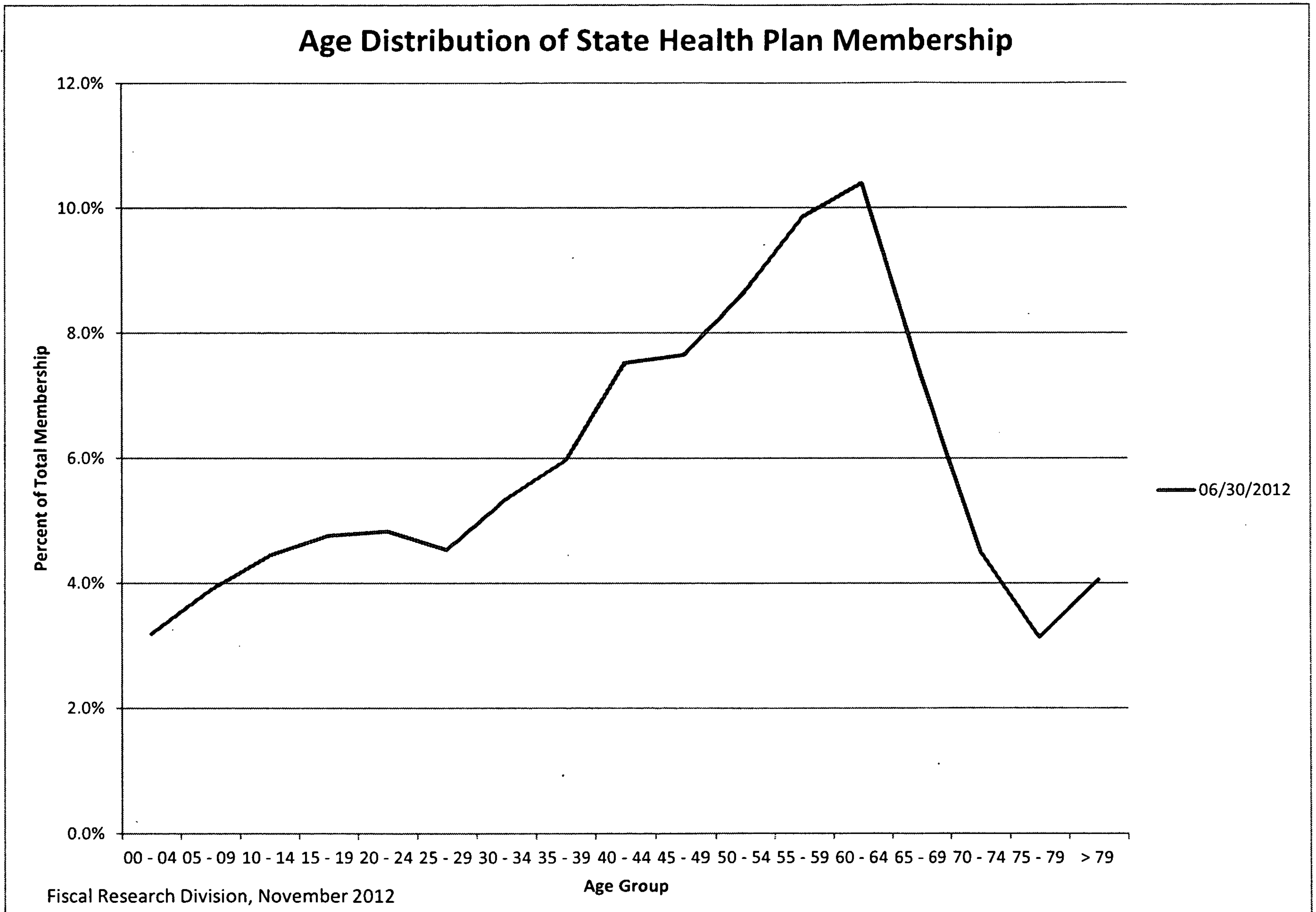


Fiscal Research Division, November 2012

Annual Claims Cost by Age in State Health Plan



Fiscal Research Division, November 2012
Source: cost curve used in NC OPEB valuation, with Fiscal Research adjustments


Age Distribution of State Health Plan Membership
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Percent of Total Membership
00 - 04 05 - 09 10 - 14 15 - 19 20 - 24 25 - 29 30 - 34 35 - 39 40 - 44 45 - 49 50 - 54 55 - 59 60 - 64 65 - 69 70 - 74 75 - 79 > 79
Age Group
06/30/2012
Fiscal Research Division, November 2012

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Division of Employment Security

Fraud Prevention, Overpayment Recovery and UI Tax Collections Status

House Select Committee on Legacy Costs from the State Health Plan, Pensions and ESC

November 13, 2012

Types of Employers Paying UI Tax

- Contributory employers
- How contributions determined
- Contributory employer accounts based on individual experience/benefits paid
- Maximum tax paid per employer – 6.84%
  - Mandated by NC Legislature

Employer Accounts

Contributory Employers

- 196,000 active accounts
- 35,000 inactive accounts

Reimbursable Employers

- Non-Profits
  - 547 active accounts
  - 52 inactive accounts

State and Local Government

- 1,189 active accounts

Indian Tribes: Example - Eastern Band of the Cherokees

Experience Rated Balances

Active contributing employers(negative balance) — 34,476

Total negative balance $2.5 billion

Inactive contributing employers (negative balance) 13,316

Total negative balance $464 million

UI Tax Collections Effort

- 10 years of active pursuit of collections
- Tax liens filed 45 days after assessment
- Active judgments - $13.4 million in taxes
- Employers - no assets - $10.4 million
- Bankruptcy - $2.0 million

Benefit Charges by Industry % of Total Charges in 2011

• Manufacturing	30.8%
• Construction	17.2%
• Administration	8.7%
• Retail Trade	7.8%
• Professional	6.7%
• Wholesale Trade	5.8%
• Healthcare	4.0%
• Transportation & Warehouse	3.9%
• Other	15.1%
• Total	100%

Overpayments

Fiscal Year: June 2011-July 2012

Fraud

- Number of Cases 5,561
- Overpayments Established
  $16,825,155.00
- Overpayments Recovered
  $7,033,548.88

Non Fraud

- Number of Cases 35,128
- Overpayments Established
  $37,998,302.50

USDOL Estimating Approach✓

- Small Sample — 500 out of 400,000 cases/ per year
- Extrapolated approach

Percentage of Overpayments

July 1, 2008 — June 30, 2011	April 2011 — March 2012
US - 11.05%	US - 11.12%
NC - 8.6%	NC - 10.69%
VA - 17.77%	VA - 17.42%
SC - 17.9%	SC - 15.04%

Latest DES Initiatives

- Increased Investigative Efforts
  - Staff adjustments
  - Interface with district attorneys and OIG
- Treasury Offset Program Implementation
  - Recovery of UI overpayments through IRS
  - 19,065 recipients notified
  - $50 million — Initially $15 million
  - Start — January 2013
- Increased Use of Technology
  - National Directory of New Hire
  - Division of Corrections
  - NC FACTS

Latest DES Initiatives

- Employers are critical to good decisions
  - Timely responses on all cases
  - Encourage employers to use electronic system for response
  - DES staff — more effort to contact employers
  - More claims in formation to employers
- Claimants
  - Require more accurate information
  - Better explanation of importance of accurate statements
  - Consequences explained
  - Actively seeking work – individual conference required

Latest DES Initiatives

- Improved Initial Claims Adjudication
  - Better Supervision
  - Added staff to improve timeliness and quality
  - Upgraded internal procedures following DOL review

Latest DES Initiatives

- Improving Business Processes
  - UI Benefits Information Systems (IS) to be replaced
  - RFP process to start in December 2012
  - 3 years
  - Upgrading operating practices
    - Now — reliance on paper documents – delays in claims care processing
    - December 2012 thru October 2013 — NCSU/DES
    - Imaging of documents for quicker access

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North Carolina Division of Employment Security - Department of Commerce
Organizational Improvements
April 2012 – November 2012

The following areas of unemployment insurance services have been identified that need to be focused upon in the near term: fraud prevention and overpayment recovery, adequacy of staff levels and supervisory structure to meet the workload demand,, sufficiency of internal controls, training of technical staff and improving relationships with employers.

A. Fraud Prevention and Overpayment Recovery.

1. *Upgrade Staff Capacity*. To allow quicker follow up on identified cases, six new fraud investigators were added to the team of 94 in June. They have already completed 176 cases with overpayments of $1,058,498 identified for recovery. Eleven additional positions are being added to assist the Benefits Integrity section. Two will be individuals with law enforcement experience to assist staff in preparing court cases, especially for felony cases.

2. *Overpayment Recovery*. Preparatory steps for implementation of the Treasury Offset Program (TOP) are complete and ready for use. This program allows the state to recover overpayment through the IRS tax refund program. This is a major information systems upgrade effort by the DES. It's operational as of November 1, 2012. DES is notifying 19,065 unemployment insurance recipients that the Division will be seeking up to $50 million in improper payments through this program beginning January 2013. It is noted that a portion of these funds will be recovered from state tax refunds through an existing interface with the State Department of Revenue from state tax refunds. Also, a number of individuals will likely pay before January. It is estimated that the new TOP will yield up to $15 million in additional collections. Approximately 50% of the individuals will receive more than one notice, since each week of overpayment is a separate fraudulent activity and they must be accordingly notified. Notices will be mailed November 1, and unpaid accounts will go to the IRS on January 7, 2013.

3. *Use of Technology*. DES crossmatches with various databases in an effort to prevent the release of improper unemployment insurance payments. Currently DES verifies all claimant information with the Social Security Administration and North Carolina vital records. In addition to these databases, DES performs weekly cross matches with the National Directory of New Hire (NDNH). All employers are required to report newly hired individuals to the (NDNH) database. Claimants, who have been reported as returning to work through this database, but have continued to file for unemployment benefits beyond their start date, are mailed notification requiring specific information regarding this potential return to work. Claimants are required to respond to this notice within 10 days from its mailing. DES interrupts the unemployment insurance (UI) payments of those claimants

who fail to provide a complete response within the allotted time frame. For the period of June 1 through September 10, 2012, 10,605 letters were sent to individuals giving notice to them. Of these, 4,878 cases resulted in a stopping of benefits and identifying $436,387 in overpayments to be collected. The division is adding five staff to handle the additional work resulting from these crossmatch findings.

DES is working with the NC Division of Adult Correction's database to perform a crossmatch with individuals who are incarcerated, with those who are receiving unemployment. The initial crossmatch identified 34 matches that found fraudulent payments of $71,396 which now being pursued for recovery. This crossmatch is performed on a monthly basis. In conjunction with this crossmatch, the prisons have blocked all access to the toll free telephone number for calling in unemployment claims. County jails are also blocking the telephone number through the Criminal Justice Law Enforcement Automated Data Services (CJLEADS). Although DES currently utilizes North Carolina death records, CJLEADS will provide access to the US Vital Records database for a crossmatch.

The Division works with other states in identifying overpayments. This year, the Division identified $513,171 in overpayments that have been collected for other states. The Division also recovered $138,634 in overpayments for North Carolina through the interstate data search.

For 2012, in addition to the above noted 19,605 cases being referred to the Treasury Offset Program (TOP), the Division has 16,054 cases in active investigation.

In 2012, the Division has begun to work with the federal Office of Inspector General on certain fraud cases. To date, 41 cases have been referred to them with an overpayment of $766,166.

The North Carolina Department of Commerce (NCDOC) Division of Employment Security, North Carolina Office of State Controller (NCOSC), and SAS Institute (SAS) have entered a Data Access and Use Agreement (DAUA) that will enhance the Unemployment Insurance (UI) Benefit Integrity program. The DAUA will allow DES to increase the discovery and prevention of fraudulent activities related to the payment and receipt of unemployment insurance benefits by individuals and employers. OSC contracted with SAS to develop the fraud, waste and improper payment detection system and host the technical environment. The System is known as the North Carolina Financial Accountability and Compliance Technology System (NC FACTS) program. The NCOSC's automated fraud detection system is a part of the comprehensive enterprise-level data integration capability that the N.C. General Assembly authorized in 2011.

4. ***Assuring Recipients are Actively Seeking Work.*** UI recipients must show they are able, available and actively seeking work to remain eligible. Final adjustments are being made on a plan to have local employment service offices review UI recipient's efforts to seek and secure work. An MOU with the Division of Workforce Solutions is being finalized. An in-person interview will be scheduled within four weeks with claimants who have filed a new initial claim or additional initial claim. Claimants selected for this initial interview must attend the appointment. Claimants will receive an orientation to JobLink and partner agency services, provision of labor market and career information, an occupation skills assessment, and a review of the claimant's continued eligibility for UI.

5. ***Improving Communications with Employers.*** DES is enhancing communication with employers. An employer's timely assistance with reviewing a claim can greatly assist with reducing overpayments. Steps are being taken to assist employers with response times. In the review of claims to determine if they qualify for UI benefits, it is critical to receive the employer's statements concerning the specific individual employee's departure. Unfortunately, 44% of requests to employers for this information are not returned. At least 1/3 of improper UI payments are due to insufficient information being provided at the initial claim review. The adjudication section, which reviews the claim, is being required to be more vigilant in seeking employer's responses. DES is also asking employers to respond to us by electronic means rather than traditional mail to allow more efficient handling of claims.

   DES is now sending out quarterly statements to employers that show potential charges or claims from former employees. In the past, annual statements (Actual Employer Charges) were sent out once a year, and potential charges were posted to the website each quarter. To keep employers more informed, we have begun mailing the quarterly update of potential charges in addition to posting this information to our website. Employers can use this information for budgetary purposes. Employers can also use this information to assist DES in early overpayment and fraud detection efforts.

6. ***Improving Communications with Claimants.*** DES is working towards updating communication with claimants about the consequences of UI fraud. DES is currently working on changing the weekly certification questions. Once logged in to the secure site, examples and consequences of unemployment fraud are highlighted before claimant can file weekly certification. This will help inform the claimant of their responsibilities as they file their claim each week *(both online and over the phone)* and also certifies the individual understands the consequences of fraud. Additional questions are being added to the weekly certification specifying the person is not filing on behalf of another person. Using the claimants name within the questions and the date of the week being certified will be significant. Adding the name indicates that the claimant is that person and that they are answering those questions for themselves. Further, indicating that

they have provided truthful answers will be helpful in decision-making and prosecution, if it's determined that misleading or untruthful answers were provided. Clarification will also occur with the addition of the date. The questions now indicate 'during the week', adding the actual date will clarify that the claimant is answering these questions for the proper week and no other week. Posters have also been placed in employment service offices across the state to address unemployment insurance fraud. These changes will be operational by December 19, 2012.

7. ***Enforcement.*** DES is meeting with the North Carolina Conference of District Attorneys to review the process for taking cases through the judicial system. They are working with the Benefit Integrity and legal team to enhance our capability in preparing cases for enforcement in state courts. In addition, DES is referring cases to the federal agency, Office of Inspector General for prosecution, as previously noted.

B. Staffing and Management Changes.

Overall UI staffing levels have fluctuated greatly over the past three years. To gain a more thorough understanding of staff resources requirements, an external consultant has been retained to address our future staffing need in each work area. This report was completed in mid September. It is now being used to adjust staffing in critical work areas for the next year.

Individuals in five senior management positions have changed during the past six months:

Benefits Section Manager
Tax Section Manager
Appeals Manager
Claims Adjudication Manager and
Information Systems Director

These are the primary operations sections in the Unemployment Insurance Program. These individuals were selected through an open recruitment process with an emphasis based on skills and experience necessary for the job.

The claims adjudication workgroup has experienced difficulty in meeting its workload tasks in a timely and accurate manner. This group is receiving immediate attention. The following steps have been taken.

a. As noted above, a new manager has been selected.
b. The team has been in inadequate office space that limited direct supervisory oversight. The team has been moved to work areas that are

more conducive to supervisory engagement with staff and better working conditions for the staff.

c. Additional adjudication staff (22) positions have been authorized and are being filled. This will improve the timeliness of the unit's efforts.
d. Supervisory staff has been increased by three positions to allow closer review of case decisions. Case reviews will be more uniform and consistent among supervisors.
e. A new training program is being implemented to assure that all staff receives the adequate level of training and that it's fully in accord with all operating standards.

The Appeals sections staffing has been adjusted to meet requirements in 2011 General Assembly legislation. The legislation requires that all the appeals judges be attorneys. The staff composition had included a number of hearing officers who were not attorneys. Changes have been made to transfer the hearing officers to the adjudication section and hire new staff in the Appeals section with the skills and education called for in the 2011 legislation.

C. Review of Internal Procedures

In July 2012, DES invited the USDOL to review operational practices in the claims adjudication unit. This assessment made the following recommendations which are now being addressed as indicated in response to each recommendation.

a. Shift all claims and adjudication resources to the Adjudication Unit and the Remotes Services Center (RSC).

   As a result of the consolidation into the Department of Commerce, direct local office management has moved away from DES to the Division of Workforce Solutions (DWS). After January 31, 2013, all claims filing, continued claims and adjudication will occur in the DES Adjudication Unit and the Remote Services Center. Between now and January 31, 2013, the transition will occur in phases. Claimants who wish to apply for UI benefits in a DWS office will be directed to in-office computers, telephones, or will be provided with a take-home and main-in package.

b. Require employers to respond to requests for information required to make nonmonetary determination and inform employers of their obligation to report separation information timely and accurately.

   North Carolina has adopted language compliant with federal rules Section 3303(f) effective October 1, 2013. North Carolina has also implemented the State Informational and Data Exchange System (SIDES). In October 2012, third party administrators TALX, ADP and Employers Edge client requests will be sent through the SIDES broker connection with electronic responses. Also, an insert will be included in the 2013 rate notices that are mailed to employers in November 2012. This insert will acquaint all taxpayers with the electronic services provided by DES and will reinforce the need for response to claims from the Division.

c. Require Adjudicators to contact employers when the separation information they have received is not adequate to resolve a nonmonetary determination issue.

   The Division is making procedural changes in the claim review and by December 1, 2012, all claims adjudicators will be making employer calls on all required cases.

d. Increase permanent Adjudication staffing in the Adjudication Unit.

   Overall staffing in the Adjudication Unit has been authorized to increase by 22 positions. Of these, 12 are permanent case consultant positions, which have been filled. The additional positions are being filled.

e. Establish a training team to provide consistent training in the Adjudication Unit.

   DES is revamping its training protocol. A team of trainers from other DES sections will provide continuous training updates to Adjudication staff. This initiative has begun with existing staff and will increase as new staff is hired. This training framework removes the training function responsibility from the supervisors in the Adjudication Unit so that they may better focus on core job outcomes.

f. Reduce the large number of claims backlogged in the Adjudication Unit.

   Currently, the Adjudication Unit is processing around 3,400 cases per week. There is an approximate cue of 8,000 cases. Additional staff, better training and a plan of staggered mandatory overtime will be employed to reduce the backlog.

g. Update your internet application with non-separation issues and require input by the claimant in the internet initial claims and internet and telephone weekly certification applications.

   The claims script for the Internet Voice Response (IVR) and continued claims application for the internet are both being updated to clearly inform claimants that they must give honest answers or risk fraud prosecution. In both applications, the claimants will now certify that they are giving true and accurate answers. DES is also amending the claims scripts to specifically ask about work refusal, quitting a job, and being fired or discharged from a job. Both applications are being altered to separately collect data on the receipt of holiday, vacation, bonus or separation pay. This change will be implemented by December 19, 2012.

h. Modernize the agency business processes.

DES has several ongoing efforts to help modernize the benefits processing system.

According the U.S. Department of Labor, the North Carolina GUIDE Benefit System is the oldest in the country and is greatly in need of replacement. In 2011, USDOL provided funding to assist the replacement of the UI benefits information system. North Carolina has joined with Georgia, South Carolina and Tennessee to undertake a consortium approach to securing a new system. This consortium is known as the Southeast Consortium for Unemployment Benefits Integration (SCUBI). This is a unique interstate effort, which can provide a more efficient use of federal funds to make the improvements. The cost of this effort is currently estimated at approximately $110 million. Progress has been slow. However, the four states have made significant progress since July 2012 and have upgraded the effort of the staff of this challenging project. A Request for Proposal (RFP) will go out in early December 2012. Vendor selection should take place by March 2013 and the implementation to be underway by November 2015. All state systems upgrades should be operational by March 2016.

Additionally, DES is actively pursuing computerized imaging of records and has imaged thousands of appeals and claims documents. Rather than storing the case files on shelves they are sent to the Imaging Unit for scanning and archiving. DES can pull up the files in the imaging system based on various search criteria and view or print the files if necessary, for instance when the case is appealed to the Division or beyond. Tax records are now being converted to this system.

DES is in discussion with North Carolina State University about a joint venture to engage in a comprehensive business process and workflow study.

D. Recent Legislative Activities.

The 2012 Session of the General Assembly made the following changes to Chapter 96 of the General Statutes dealing with unemployment insurance. These changes were made to address recommendations made by the House Committee on Unemployment Insurance Task Force as well as objections made by the Conformity and Compliance Department of the Untied States Department of Labor (USDOL).

Additionally, provisions were included to comply with the provisions in the Trade Adjustment Act Reauthorization passed in Congress and signed by the President in October 2011. While three of these changes were mainly technical in nature, the other three are highlighted below. The Division is working to implement these changes.

a. Part II of the bill deals specifically with correcting provisions contained in Senate Bill 532 that passed the Legislature in 2011. Part II of this bill also addressed concerns regarding the definitions of misconduct, stipulation of facts in an appeals hearing, and the employer's response time to the notice of the filing of a claim.
b. Part III contained provisions that were recommendations from the House Unemployment Fraud Task Force. This section specifically addressed recommendations to comply with provisions from the Trade Adjustment Act Reauthorization of 2012. This provision expands the reporting requirement for employers who rehire employees who have been separated for at least 60 days. Employers will no longer be allowed to receive a non-charging of benefits decision should they show a pattern of not responding to DES requests for information regarding a claim that results in an overpayment of benefits. Furthermore, it applies a mandatory 15% penalty to claimants who receive an overpayment due to an act or omission by the individual.
c. Part IV recommended making unemployment fraud for benefits valued at more than $400 a Class I felony. For benefits valued at $400 or less, the offense is classified as a Class I misdemeanor. SB 828 removed the statutory time constraints on fraud and non-fraud.

E. Unemployment Trust Fund

The high levels of unemployment for the past four years required the payment of unemployed benefits, which greatly exceeded revenue from state unemployment insurance payments by employers. The result has been that the state had to borrow funds from the U.S. Department of Labor. This borrowing has resulted in a current debt of $2,454,821,495.

The state is required to repay these funds. The federal regulations allow the U.S. Department of Labor to commence a multiyear collection through the federal unemployment tax, which employers pay. This adjustment began in 2011. It will continue until the debt is repaid which would be in 2019 under the federal rate adjustment approach. The state has other options to repay the debt, which may modify the level of the federal tax collection.

DES staff has been working with legislative committees and legislative staff to identify options, which the state may consider.

Initial claim trends are as follows:
January through October 13

2008	551,872
2009	925,704
2010	581,922
2011	511,642
2012	467,736

The four-week moving average ending October 13 for initial claims compares as follows.

2008	14,609
2009	16,491
2010	13,767
2011	12,270
2012	10,547

Going Forward — November-December 2012

- The Claims Adjudication unit will fill remaining vacant positions and reduce the backlog of claims.
- DES will send letters to the 19,065 individuals who owe funds from overpayments and advise them of our plans to collect these funds from IRS tax refunds.
- DES will provide notices to the interested parties of the upcoming request for proposals on the Information Systems upgrade.
- DES will work with NCSU to finalize an arrangement to engage them in a review of business practices and procedures.
- Letters will go to employers urging them to transact business with DES by electronic means rather than mail.
- Public notice will be given of legislation that makes certain fraudulent behavior a felony crime.
- DES will hold a meeting on November 7 with other state agencies to review the phasing out of the federal emergency unemployment compensation (EUC) benefits. These benefits terminate week ending December 29, 2012 and will affect approximately 70,000 UI recipients.
- DES will publicize the change so that affected individuals will be informed.
- RFP for major Information Systems upgrade goes out for bid in early December.
- The weekly certification statements from claimants will be upgraded on December 19 to include more detailed questions that emphasize importance of avoiding fraudulent behavior.

NORTH CAROLINA GENERAL ASSEMBLY
Raleigh, North Carolina 27601

November 30, 2012

MEMORANDUM

TO:	Members, House Select Committee on Legacy Costs from the State Health Plan, Pension and ESC
FROM:	Representative Dale Folwell, Chairman Representative William C. McGee, Chairman
SUBJECT:	Meeting Notice

DAY	**DATE**	**TIME**	**ROOM**
Tuesday	December 11, 2012	12:00 noon	544 LOB

Parking for non-legislative members of the committee/commission is available in the visitor parking deck #75 located on Salisbury Street across from the Legislative Office Building. Parking is also available in the parking lot across Jones Street from the State Library/Archives. You can view a map of downtown by visiting http://www.ncleg.net/graphics/downtownmap.pdf.

If you are unable to attend or have any questions concerning this meeting, please contact Jayne Nelson at 919-733-5747.

cc: Committee Record _X_
Interested Parties _X_

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

Agenda

Tuesday, December 11, 2012
12:00 p.m.
Legislative Office Building, Room 544

I. Welcome and Comments

Representative Dale Folwell, Cochair
Representative William McGee, Cochair

II. Presentation of Report

III. Committee Discussion

IV. Adjourn

House Select Committee on Legacy Costs from the
State Health Plan, Pensions & ESC
December 11, 2012

The House Select Committee on Legacy Costs from the State Health Plan, Pensions & ESC meeting was held on December 11, 2012 in Room 544 of the Legislative Office Building at 12:00 noon. Representative Folwell presided as Chair. Members present were: Representatives McGee (Cochair), Folwell (Cochair), Cleveland, Hamilton, Jackson, and Pierce. Sergeant-at-Arms present were: Fred Hines, Martha Gadison and Larry Elliott. (See attachment 1). A Visitors Sheet is attached. (See attachment 2)

Representative McGee called the meeting to order at 12:05 pm and welcomed the committee, visitors and staff. He thanked them for coming and made some remarks about the building of legacy costs by growing the unfunded and underfunded liabilities of the State. An example given was the use of COPS to add facilities, which added costs to the financing, and which also then required maintenance and staffing for the buildings into the future. He also noted the actuarially required contributions by the employer for defined benefit plans were sometimes less than the amounts required by policy for defined contribution plans. Representative McGee added that members on future committees studying these issues may find other areas where like findings could be found and hoped that information gleaned from this committee would be helpful.

Representative McGee asked for a motion to approve the October minutes as corrected, Representative Folwell moved for approval and the motion carried. (See attachment 3)

Representative McGee asked for a motion to approve the November minutes, Representative Folwell moved for approval and the motion carried. (See attachment 4)

Representative McGee then introduced Stanley Moore of Fiscal Research to explain the Pensions portion of the draft Legacy Costs Committee Report to the House of Representatives 2013 Session and recommendations and options for the next General Assembly. Mr. Moore's presentation concentrated on pages 17 and 18 of the report. (See attachment 5)

Representative McGee asked in reference to the money diverted from the retirement fund by Governor Easley in 2001, were employer contributions to the Optional Retirement Plan at UNC also diverted? Mr. Moore responded that they were not, that the 6.84% ORP contributions were paid to the employees' accounts as required. Rep. McGee then asked if it was correct to state that there is no way for the State to get around paying into the ORP? Mr. Moore stated that the statement was correct.

Representative Hamilton asked if the vesting period for the Legislative Retirement System would apply to current members or for new members if it is changed to 10 years. (See attachment 5, page 18) Mr. Moore replied that it probably would be done on a prospective basis or after a certain date. Representative McGee added that it would be a decision made by the next General Assembly.

Representative McGee handed the gavel to Representative Folwell to chair the next portion of the meeting concerning the Retiree Health Benefits, State Health Plan, Employee Benefits Statement and Unemployment Benefits. Representative Folwell introduced David Vanderweide of Fiscal Research to present this section of the report found on pages 18 through 20.

Representative Folwell pointed out that in the section concerning the Employee Benefits Statement that he had offered a bill to facilitate the recommendation to 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. Representative Folwell stated that he hoped the next General Assembly would implement this and utilize the many qualified public and private industry experts to help design this statement.

Representative Folwell passed the gavel back to Rep McGee who asked Mr. Moore to explain what happens to the State Retirement Plan when an employee decides to retire and then come back to work for the State. Mr. Moore responded that it hurts the Retirement System because when the retiree comes back to work, the 6.00 % that was contributed by the employee to the plan before retirement is no longer being contributed. He further stated if the retiree stayed home, then a younger person would be employed who would be contributing to the plan, which helps the plan.

Representative McGee also asked Mr. Moore to explain how the 6 month break in service was interpreted by the IRS. Mr. Moore responded that after several legislators met with the IRS in Washington, DC and after many conference calls with the IRS, the IRS responded that the employee must: (1) terminate with no expectations of coming back and (2) have a break in service of 1 month to 1 year. He further stated that the length of the break in service was influenced by the time teachers have vacation (3 months) in the summer, so the decision was made to implement a 6 month break for fairness.

Representative McGee asked if there were any more questions from the committee. Hearing none, the Chair asked if the committee was ready to vote to approve the report.

Representative Cleveland moved to approve the House Select Committee on Legacy Costs for the State's Obligations for Pension, Retiree Health Benefits, State Health Plan, and Unemployment Benefits Report to the House of Representatives 2013 Session of the General Assembly. (See attachment 6) The motion carried unanimously.

Representative McGee thanked the staff for their many hours of work, and adjourned the meeting at 12:33pm.

Jayne A. Nelson

Jayne A. Nelson,
Committee Clerk

Representative Dale Folwell,
Cochair (presiding)

Representative William C. McGee,
Cochair (presiding)

12-11-12 ATT #1

Committee Sergeants at Arms

NAME OF COMMITTEE ~~LAGACY~~ LEGACY COST from the STATE HEALTH PLAN, PENSIONS & ESC

DATE: DEC. 11, 2012 Room: 544

House Sgt-At Arms:

1. Name: FRED HINES
2. Name: MARTHA GADISON
3. Name: LARRY ELLIOT
4. Name:
5. Name:

Senate Sgt-At Arms:

1. Name:
2. Name:
3. Name:
4. Name:
5. Name:

12-11-12 ATT # 2

VISITOR REGISTRATION SHEET

House Select Committee on Legacy Costs — December 11, 2012

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Ed Regan	NCRGEA
Glen Gillette	PFFPNC
Katherine Joyce	NCASA
Pam Deardorff	NCRSP
Lacy Presnell	NCRSP
Lacey Barnes	State Health Plan
Russ Eubanks	NC AOC
Solari	DST
Steve Toole	DST
Susanna Davis	Williams Mullen
Mitch Leonard	SEANC

VISITOR REGISTRATION SHEET

House Select Committee on Legacy Costs — December 11, 2012

Name of Committee — **Date**

VISITORS: PLEASE SIGN IN BELOW AND RETURN TO COMMITTEE CLERK

NAME	FIRM OR AGENCY AND ADDRESS
Chuck Stone	SEANC
Daniel Amburn	NCRMA
C Stolls	TSS
Sam Watts	NC Dept of State Treasurer
Emma Hanson	DST
Lindsey Hosner	DST
Evelyn Hawthorne	PENC; EHOR
Marge Freeman	NCAE
Jenni Jones	NCLM

12-11-12 ATT# 3

House Select Committee on Legacy Costs from the
State Health Plan, Pensions & ESC

October 16, 2012

The House Select Committee on Legacy Costs from the State Health Plan, Pensions & ESC meeting was held on October 16, 2012 in Room 605 of the Legislative Office Building at 12:00 noon. Representative McGee presided as Chair. Members present were: Representatives McGee (Cochair), Folwell (Cochair), Hamilton, Jackson, L. Johnson, Moffitt and Pierce. Sergeant-at-Arms present were: John Brandon and Jesse Hayes. (See attachment 1) A Visitors Sheet is attached. (See attachment 2)

Representative McGee called the meeting to order at 12:01 pm and said the scope of the meeting would be the same as the first meeting held last year with updates on previous information and new information that has been attained since then. He also added that this is one of the most important committees in existence now and that the business done in this committee affects all taxpayers in North Carolina. Representative McGee then read the committee mission statement for emphasis on the State's ability to afford these costs.

Representative McGee introduced Dr. Barry Boardman of Fiscal Research to present his interpretation of a State and National economic forecast over the next five years. (See attachment 3) At the conclusion of the presentation, Cochairman Folwell asked for more information at future meetings on the following:

1. Inflation and medical expenses
2. 7 ¼ % investment goal for pensions
3. Percentage rate risks/US charging a higher interest rate
4. Proliferation of non-profits-expenses as relate to the State (no property or corporate taxes)

Dr. Boardman responded that he would work on his requests. Representative McGee asked what would happen to long bonds if held in the Treasurers' portfolio. Representative McGee then further stated that in a period of rising interest rates the principle value would decline to reflect the higher interest rate environment. With a high proportion of interest rate sensitive holdings, it will be difficult to meet the 7.25% return expected when interest rates are as low as they are now.

The Chair introduced David Vanderweide to give an overview of the States' long-term liabilities and retired employee health benefits. (See attachment 4) Mr. Vanderwiede stated that the State has an unfunded liability at present of $29b and by 2021, as funded now, is projected to be $44b. He made comparisons in eligibility, Medicare, retiree premiums with other states and concluded that North Carolina has the 9th highest liability in the United States. Representative Folwell commented that the vested but not yet drawing retirement was a large part of the liability ($5 or $6b) and Mr. Vanderweide agreed and added that it impacts the health plan also. In relation to paying down the

States' liability, Representative McGee asked if normal costs are not a better measure. Mr. Vanderweide agreed and stated that it would take $2.5 billion to pay off the liability in 30 years, more if in less years. Representative Folwell asked questions regarding taxation in other states of North Carolina retirees' incomes who have established residencies in other states while drawing retirement and health benefits. He followed up with a question about the health plan calendar year and how it had affected the military.

Representative McGee introduced Stanley Moore to give an overview of pension benefits. (See attachment 5) Mr. Moore stated that in the last few years, contributions have gone down while retirees are going up because of budget cuts. Mr. Moore also stated that Representative McGee was correct when he spoke earlier to the loss of $16b due to downfall of equities in the plan in 2008.

In reference to Representative Folwell's question about out of state retirees, Mr. Moore said the $4,000 exemption was not a drain on the income tax system that the five year health insurance does kick in but only from 60-65 then Medicare comes in and the State makes money on it. Representative Linda Johnson asked again if retirees from out of state were a drain on the State by avoiding paying income taxes. Mr. Moore replied that they are not but "double-dippers" in their 50's were the biggest drain.

Representative McGee asked if underfunding raised the States' liability regarding the pension plan. Mr. Moore responded that in 2001 when Governor Easley took office, he directed all the employers to send all of the money to the budget office, the budget office intercepted 130m from the teachers and state employees and used it to balance the budget. That legislature passed a bill to pay back the funds with interest over the next five years. The principle was repaid, but not the interest.

Representative Jackson asked Mr. Moore to address "spiking" of salaries. Mr. Moore said that the spiking of salaries for a desired outcome was largely considered an extraordinary event. Representative Jackson asked if there had been legislation addressing the problem. Representative McGee responded that a bill was offered by Representative Folwell, but after much investigation and discussion, it was deemed that "spiking" was not a widespread problem in the normal course of TSERs retirement beneficiaries and the legislature did not want to hurt those going through a normal progression in salary during their careers. Representative Folwell added that 10% a year or 40% in 4 years was added to alleviate any problem of people knowing people in power.

Representative Linda Johnson asked since there is no committee for Legacy Costs, only a study committee, how does the legislature know when a problem such as this comes up, that they need to act to solve it. Mr. Moore said the Treasurers' Department sees these problems when they come up, send it on to the Board and they ask for legislation.

Representative McGee recognized Mr. Steve Toole of the Treasurer's Department to address the committee. Mr. Toole stated that their Department is always using analysis to work with the legislature and staff to protect the system for the long term.

Ms. Kristen Walker of Fiscal Research gave an overview of Unemployment Debt owed to the Federal Government. (See attachment 6) She gave an explanation of North Carolina's unemployment insurance debt and compared North Carolina's debt to other states with North Carolina being 3rd behind California and New York.

Mark Bondo of Fiscal Research addressed the committee about the State Debt and explained the benefits and drawbacks of debt service, and the types of State Debt and bonds. (See attachment 7)

Representative McGee recognized Mr. Sam Watts of the Retirement System who said he will have more data regarding the funded ratio. Mr. Watts responded that they will have that number next week. He added that the State is the 4th lowest on state plans.

Representative Folwell asked if there is anything in the Affordable Health Care Act that prevents the State from abdicating its' responsibilities to provide health care for its' employees. David Vanderweide responded that there is a penalty for not covering active employees, but not for retirees. Representative Folwell asked if the State is doing an analysis, as businesses are, to see what the penalties of not covering employees would cost the State versus covering them. Ms. Mona Moon (Department of the State Treasurer/State Health Plan) was recognized to answer Representative Folwells' question to staff. Ms. Moon said due to the complexity of the affect the Affordable Health Act will have on the State, it is their plan to look at these numbers with their Board of Trustees and with the Treasurer at a later date in order to make recommendations to the Legislature.

Paul Meyer of the North Carolina League of Municipalities was recognized and stated that their organization has a lot of smaller employers that will be eligible for this sooner. He added that some of those calculations are occurring now, and he expects to see some of the smaller cities making those decisions earlier than the larger ones.

Representative McGee thanked the members, staff and visitors, and asked the members if they had any questions for the next meeting, to give them to the Chairs or staff. The meeting adjourned at 1:40 pm.

Representative William C. McGee, CoChair (presiding)	Jayne A. Nelson, Committee Assistant

Representative Dale Folwell,
CoChair

12-11-12 ATT # 4

House Select Committee on Legacy Costs from the State Health Plan, Pensions & ESC
November 13, 2012

The House Select Committee on Legacy Costs from the State Health Plan, Pensions & ESC meeting was held on November 13, 2012 in Room 544 of the Legislative Office Building at 12:00 noon. Representative Folwell presided as Chair. Members present were: Representatives McGee (Cochair), Folwell (Cochair), Cleveland, Collins, Hamilton, Jackson, L. Johnson and Moffitt. Sergeant-at-Arms present were: Bob Rossi and Larry Elliott. A Visitors Sheet is attached. (See attachment 1)

Representative Folwell called the meeting to order at 12:00 pm and welcomed the committee and visitors and thanked them for coming. He stated that between he and Representative McGee there is a lot of institutional knowledge that he hoped would be useful in the time forward. Representative Folwell further stated that he hoped that the members would have questions and answers for the presenters as they tackle these problems. He stated the committee would look at how the rate of return on investments was down due to the large amount in bonds that have a historically low yeild and how to meet the rate of return in the future and the impact that will have on the budget.

Representative Folwell introduced the first presenter, Mr. Steve Toole, Director of the Retirement Systems Division, Department of State Treasurer. Mr. Toole explained that the presentation would be split into a three part Powerpoint. (See attachment 2). Mr. Toole, Mr. Sam Watts and Mr. Larry Langer would give an overview of the NC Retirement Systems Funding, GASB Accounting Changes and New Funding Policies. Mr. Toole stated that the State of North Carolina has a well- funded retirement system that many states are envious of, having made good decisions for many decades. He pointed out that in fiscal year 2012-2013 the legislature had exceeded annual required contributions to offset fiscal year 2010-2011 when they fell short and applauded them for that action.

Mr. Sam Watts, Policy Director, Retirement Systems Division, Department of State Treasurer addressed the committee regarding a more detailed explanation of the Employer Contribution and the effect it has on the entire State and how GASB changes will mean that GASB results can no longer be used for funding: these changes will take effect in 2013. (See attachment 2, pages 4-5)

Mr. Larry Langer, Principal Consulting Actuary for the State Retirement System, Buck Consultants addressed the committee with a presentation to detail the changes in accounting methods with the new GASB changes and its impact on the State Retirement- System. (See attachment 2, pages 6- 8)

Representative McGee asked Mr. Langer, in regard to the new rules coming into place and causing a greater unfunded liability immediately, what flexibility is available for the amortization period ? Mr. Langer responded that the new GASB rules have different amortization periods as reflected on statements, but on the funding side, they still have the same actuarial tools to develop funding policies. He further stated that the new measures give them other ways to pay off a pension fund. Representative McGee followed up with a question regarding the change from 9-12 years and what effect that has on the liability. Mr. Langer estimated that it would affect the contribution amounts by 1/2 -3/4 % of payroll.

Representative Collins asked much it would take to pay off the $8.4 billion unfunded liability. Mr. Langer said roughly $14-16 billion range at 7.25 %.

Representative Cleveland asked if under the present policies the State is taking care of the pension plan. Mr. Watts responded that is correct, but may change from year to year due to the market value of assets on the books. Representative Cleveland followed up by asking how volatile this is. Stanley Moore of Fiscal Research gave further explanation regarding the difference between funding and reporting methods. Representative McGee asked if a true statement would be that the reporting might be more volatile than the actuarial requirements and Mr. Langer concurred.

Representative Folwell brought to the attention of the committee that in some years the employer contribution was very low or zero, so contributions with local funds were also very low. This creates a burden on the State as the required contribution that should follow the money is not coming in.

Mr. Watts then spoke on the Moody's changes and referred to the letter from Treasurer Janet Cowell. (See attachment 2, page 9 & attachment 2b)

Mr. Toole then spoke to the Issues on the Horizon. He did forecast that the bond market interest rates will be going up, so some legislation will be coming to address those problems. Also, in reference to Fraud, Waste and Abuse Reviews, There will be some anti-spiking pension legislation that Buck & Associates won the bid to research. (See attachment 2, page 9)

Representative Cleveland asked what the actual return was and Mr. Toole responded that:

10 year - 7.42%
Annual - 2.1%
5 year - 7.36%

Representative Folwell said the 7.25% benchmark had been met and Mr. Toole added that the State plan to invest over 30 years was important to the success of the system.

Representative Collins asked if the Treasurer's Office would be asking for more flexibility next year in asset allocation of the State Pension fund. Mr. Toole responded in response to Representative Folwell statement referencing interest rates and bonds that they would due to not being able to get the return in the bond market that they used to.

Representative Folwell asked what the Treasurers' Office is going to do to make the retirees know the true value of alternative investments. Mr. Toole answered that they are planning to be better communicators of the ebbs and flows through team monitoring and sharing of information.

Mr. David Vanderweide, Fiscal Research, gave an update on the State Health Plan; Younger vs. Older Enrollee Trend & Appropriations Implications. (See attachment 3) Mr. Vanderweide gave an overview of the last 30 years on age and percent of population, the annual claims costs of state employees by age and the age distribution of the State Health Plan Membership. He stated that the health costs plummeted when participants reached Social Security because the State Health Plan becomes secondary to Medicare.

Representative Folwell asked how aggressive would the State have to be to attract more young healthy people to affect the appropriation to the State Health Plan. Mr. Vanderweide responded that the State would have to be very successful in recruiting these people to affect the appropriation, but that other factors such as human resources strategy have to be taken into account also. Representative Folwell asked if changing the calendar year for the State Health Plan would make it more competitive. Mr. Vanderweide responded that to attract more dependents, it would cost the State more because other companies pick up more cost for dependents. Also the State cannot vary the price of premiums based on health as other health insurers; however, that will go away with the Affordable Care Act, so the State may get a more even mix of dependents. Representative Folwell asked if the State would look at going to Obamacare as some companies in his district near Winston-Salem are talking about. Mr. Vanderweide answered he was sure they would want to look at it, but the rules and policies are not totally clear yet, and if they do they would have to look at several strategies, ie: active employees, dependents and non-Medicare retirees and what penalties would have to be paid.

Representative Folwell thanked Mr. Vanderweide the assistance he has given him on this subject during his time at the General Assembly and said that this is one of the most important issues and will continue to be in the years to come.

Mr. Dempsey Benton, Assistant Secretary for Employment Security, Department of Commerce addressed the committee regarding Plans for Recovering Fraudulent Payments and & Collection of Uncollected Premiums. (See attachment 4 a & b) Mr. Benton and Lockhart Taylor explained the process to get an unemployment check and went over fraudulent practices of recipients and following up. At the request of the Representative Cleveland, the criteria for "suitable work" will be provided by the Department.

Representative Linda Johnson asked how the move to computerized service was being implemented and how many claims are coming in that way. Mr. Benton said they have that capability and also have call centers to walk people through the process. He added they will be adding a requirement to come back to the office after a month for an in depth interview to help them get work. Representative Johnson also asked what is being done for those who cannot read or speak a different language. Mr. Benton said he and his staff are also concerned and are working on that issue.

Representative Folwell asked what would be the virtue of having everyone on pay forward whether they are a nonprofit or for-profit. Mr. Benton responded that it is an issue that the legislature may want to take a look at.

Representative Folwell asked if a company has a change of venue, goes out and starts the exact same business under another name, does Uncollected Fraud have the ability to go through the Secretary of States' Office to put that together and have the authority to go after the money that is owed.

Mr. Benton deferred to Mr. Ted Brinn, ESC Tax Manager, who explained that they have two ways to handle that: 1) successorship when someone takes over the previous company and 2) they have a special fraud unit that finds companies that change their names to operate under the same name in the ESC system.

Representative Folwell asked if they are placing tax liens are they going by social security number or tax ID numbers. Mr. Benton replied they are going by tax ID numbers which is the individual unless they are an S2 or an LLC and then they go by the way the company presents itself to the public.

Representative Folwell asked if they are getting tax liens through the State of North Carolina as well as the Federal tax system. Mr. Benton replied that are working on the Fraud and Benefits side. He also said they have not been able to get on line with the IRS tax collectibles but hope to next year. Representative Folwell followed with why they are not going after the under payments since it is ten times larger. Mr. Benton responded that they are prohibited by statute.

Representative Folwell asked if prisoners can collect unemployment. Mr. Benton said they cannot, but last summer they found that some were and corrected the situation. Representative Folwell followed up by asking if any checks were going out of the country to illegal immigrants. Mr. Benton responded he was not aware of that and he would check on it.

Representative Folwell asked if anything has changed in the last year to stop overpayments. Mr. Benton replied they have added supervisors and staff to improve on their work and to better communicate with employers.

Representative Collins asked if we pay unemployment to people who move out of the State. Mr. Benton replied that we do because it is a national program.

Stanley Moore answered a previous question that Representative Folwell asked about persons on unemployment who receive a pension. He said pensions are unassignable and offset by any other employment, so they are not subject to collection by statute.

Representative Folwell asked if one can start a training program and get their unemployment debit card reloaded. Mr. Taylor and Benton said there are provisions to allow them to stay in the unemployment program, but it is a small amount since they are not earning wages. If they enroll in community college they would have to update each week.

Representative Folwell requested a graph of the United States Department of Labor Estimating Approach for Percentage of Overpayments for the Underfunded comparing how the State of North Carolina has done in relation to other states in relation to the employers we have not collected from, the negative balance. Mr. Benton said they would work on that.

Representative Folwell that Mr. Benton and his staff and recognized Representative McGee to ask a question about the Optional Retirement Plan offered by UNC, regarding how the defined benefit plan is handled if a person has moved into the ORP after 15 years. Stanley Moore answered that a law was passed that gives the two plans reciprocity so that you can get retirement eligibility on the years you have accumulated both before and after the point you switch to the ORP.

Representative Folwell announced that there will be 1 or 2 more meetings to get a report ready and thanked everyone who worked on the committee.

The meeting adjourned at 1:57 pm.

Representative Dale Folwell,
CoChair (presiding)

Jayne A. Nelson,
Committee Assistant

Representative William C. McGee,
CoChair

12-11-12 ATT# 5

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
Co-Chair

Representative William C. McGee
Co-Chair

COMMITTEE AUTHORIZATION

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: 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	Benefit Comparison Summary[11]: 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[6]	$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[6]	$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.

[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

12-11-12 ATT # 6

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
Co-Chair

Representative William C. McGee
Co-Chair

COMMITTEE AUTHORIZATION

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

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]			10 States with a Medicare Plan
		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	1. California 2. Georgia 3. Kentucky 4. Louisiana 5. New Jersey 6. New York 7. South Carolina 8. Tennessee 9. Texas 10. West Virginia
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	3 States with no Medicare Plan 1. Florida 2. Mississippi 3. North Carolina
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[6]	$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[6]	$172	Varies[10]	9	0	1	

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] 50% 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.

[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