## COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

## 98TH GENERAL ASSEMBLY

BILL NO: **SB 2368** February 21, 2013

SPONSOR(S): McCarter

SYSTEM(S): General Assembly Retirement System (GARS), State Employees'

Retirement System (SERS), State Universities' Retirement System (SURS), Teachers' Retirement System (TRS), Judges Retirement

System (JRS)

FISCAL IMPACT: SB 2368 will reduce the State's contribution and unfunded liabilities across all 5 State-Funded Systems to a presently indiscernible degree. Shifting a portion of the normal cost of TRS pensions to local school districts will directly reduce contributions, as will increasing employee contributions over the next 2 years. However, a portion of those savings are dependent upon the State having to fulfill certain school-related mandates.

<u>SUBJECT MATTER</u>: SB 2368 amends the 5 State-Funded Retirement Systems by increasing member contributions over the next 2 years, capping and changing the COLA, and by establishing a contribution schedule that would bring each system up to 100% funded by FY 2045. Inasmuch, this bill repeals any mention of the current-law 90% funding schedule.

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<u>COMMENT</u>: As of current law, GARS, SERS, SURS, TRS, and JRS provide a retirement annuity to their participating members, while the members provide contributions (that vary by system) and the State covers the rest of the cost. The current funding schedule is such that each system will have enough actuarial assets to cover 90% of their actuarial liabilities in FY 2045. Upon receiving the aforementioned retirement annuity, each member will receive annual cost-of-living-adjustments of 3% compounded.

SB 2368 aims to change three facets of each of the 5 State-Funded Retirement Systems: the employee contribution rate, the employer contribution (and, for TRS, who pays it), and the value of a retiree's COLA.

- COLA: Retiree's will receive the lesser of 3% or half the CPI-U on only the first \$25,000 of retirement annuity.
  - o For retiree's receiving a benefit significantly under \$25,000, this bill *is unclear* on whether this COLA will compound over the years.

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• Employee Contribution Rates: All members (Tier-1 and Tier-2) will make increased contributions to their system

- o By 7/1/2013: 1% on top of current contribution levels.
- o By 7/1/2014: 2% on top of current contribution levels.
- Employer contributions: All 5 State-Funded Retirement Systems will establish a 100% funding goal to be achieved in FY 2045.
  - Systems and members of systems will be able to file a writ of mandamus in order to compel payment to the system.
- This bill also proposes a gradual shift of the normal cost to individual school districts (TRS only).
  - o FY 2014: .5% of NC
  - o FY 2015: 1%
  - Each fiscal year up to and including FY 2023, the amount will increase by one percentage point.
  - o In FY 2023 and beyond, 9% of NC.
  - o *However*, individual school districts will not have to contribute towards the normal cost for that fiscal year <u>if</u> certain State mandates have not been fully funded (including the School Breakfast and Lunch Program).
  - o Finally, the minimum required contribution will be TRS's normal costs, at most.

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