



# Salaries and Benefits FY 2011-13 Budget Highlights

Fiscal Brief

March 2012

The North Carolina General Assembly House and Senate Appropriations/Base Budget Committees address statewide appropriations for compensation and benefits as a full committee based on recommendations from the Chairs of the respective Appropriations Committees. This fiscal brief highlights the General Assembly's 2011 Session actions to adequately finance various benefit systems that serve active and retired employees of State agencies, universities, local public schools, and local community colleges. The primary benefit systems described are the Teachers' and State Employees Retirement System (TSERS) and the State Health Plan for Teachers and State Employees.

## Executive Summary

The State provides funding for salaries for employees of State agencies and universities and a majority of the personnel employed by local public schools and community colleges. The General Fund payroll base is estimated to exceed \$11.09 billion for FY 2011-2012. Total payroll is expected to exceed \$15.58 billion, including receipt revenues from State agencies, universities, local public schools, and community colleges.

The State operates several retirement systems for public employees. The Teachers' and State Employees' Retirement System has the largest membership and assets of all the retirement systems and provides benefits to eligible employees of State agencies, departments, universities, local public schools, and local community colleges. As of December 31, 2010, the System had approximately 317,000 contributing members and paid retirement benefits of \$3.3 billion annually to 163,938 beneficiaries. As of December 31, 2010, the market value of assets totaled \$54.1 billion while the actuarially recognized assets totaled approximately \$57.1 billion. Recognized assets exceed the market value of assets due to the effect of investment gains and losses being averaged over a five-year period to smooth market fluctuations (i.e. the significant losses sustained during the 2008 calendar year). The System was considered 95% funded (i.e., \$0.95 in assets for each \$1.00 of liabilities) based upon the recognized assets as of December 31, 2010.

The State Health Plan for Teachers and State Employees (Plan) administers health benefit coverage for active employees from employing units of State

agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

## Salaries

The 2011 Session of the General Assembly maintained the freeze on most salary increases for State employees as enacted during the 2009 Session including the freeze on automatic salary increases for certain employee groups. Section 29.8 of S.L. 2011-145 as amended by Section 59A of S.L. 2011-391, 2011 Budget Technical Corrections, specifies certain exceptions to the general salary freeze. The 2011 Session of the General Assembly also maintained the freeze on public school teacher, principal, and assistant principal salaries as enacted during the 2009 Session. Teachers, principals and assistant principals, who have gained an additional year of experience, will move up one step on the experienced based schedules but their salaries will remain the same.

## Retirement

Due to the significant losses in the market value of assets during the 2008 calendar year, the actuarial

valuations for December 31, 2009 indicated the need for increased employer contributions beginning July 1, 2011. The required additional increases from the General Fund amounted to \$248.1 million for the Teachers' and State Employees' Retirement System, \$6.8 million for the Consolidated Judicial Retirement System and \$4.3 million for the Firemen's and Rescue Squad Workers' Pension Fund. The General Assembly directed the Board of Trustees to adopt a 12 year liquidation period thus extending the liquidation period from the 9 year period enacted in 1996.

The General Assembly enacted the following additional recurring General Fund and Highway Fund appropriations to the various retirement systems or funds:

| <b>State Appropriations (Recurring)</b> | <b>FY 2011-12</b>    | <b>FY 2012-13</b>    |
|---|----------------------|----------------------|
| General Fund for TSERS <sup>1</sup>     | 248,100,000          | 336,000,000          |
| Highway Fund for TSERS <sup>1</sup>     | 11,200,000           | 15,100,000           |
| General Fund for FRSWP <sup>2</sup>     | 4,318,042            | 5,366,928            |
| General Fund for CJRS <sup>3</sup>      | <u>6,800,000</u>     | <u>7,800,000</u>     |
| <b>TOTAL</b>                            | <b>\$270,418,042</b> | <b>\$364,266,928</b> |

<sup>1</sup> Teachers' and State Employees' Retirement System

<sup>2</sup> Firemen's and Rescue Squad Workers' Pension Fund

<sup>3</sup> Consolidated Judicial Retirement System

The amount of budgeted receipts of employing agencies used to pay employer contributions to the retirement system for receipt-funded positions may be increased to pay the additional employer contributions authorized by the General Assembly.

## **Other Legislation**

### *State Pension Solvency Act*

S.L. 2011-232 (House Bill 927) increases the vesting period to qualify for benefits from five years of service to ten years of service. This change applies only to individuals who become members of the Teachers' and State Employees' Retirement System on or after August 1, 2011. This act also makes it a misdemeanor for anyone to fraudulently receive a deceased retiree's retirement benefits from any State retirement system more than two months after a retiree's death.

## **State Health Plan for Teachers and State Employees**

The State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. As of May 2011, enrollment in the Plan was 664,218 Plan members. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan were projected to be \$2.7 billion for FY 2010-11.

The General Assembly enacted Session Laws 2011-85 (Senate Bill 323) and 2011-96 (House Bill 578) to address the Plan's projected financial needs for the 2011-13 biennium. The summarized changes enacted by the General Assembly are listed below:

- Establishes employee and retiree premiums for employee-only coverage in the Standard 80/20 Plan; while premiums were also established for actives in the Basic 70/30 Plan, Session Law 2011-96 authorized the Plan to offer the Basic Plan with no premium;
- Authorizes a 5.3% annual increase in each fiscal year of the biennium in premium rates charged by the Plan for dependent coverage;
- Makes General Fund appropriations of \$109.3 million for the 2011-13 biennium;
- Reduces Plan benefits by increasing plan member out-of-pocket requirements for certain medical benefits and prescription drugs;
- Repeals the "Comprehensive Wellness Initiative", implemented in 2009 to focus on smoking cessation and weight management efforts; and
- Transfers control of administration, benefit design, and setting Plan member premium contributions to the State Treasurer and Board of Trustees.

Additional information on these changes is described below under the related headings.



## Increased Funding Appropriated

The General Assembly enacted the following additional General, Highway and Receipt funds appropriations for the 2011-13 biennium to fund increased employer premium contribution rates paid by employing units to provide health benefit coverage to their eligible active employees and employer payroll contributions paid to the Retiree Health Benefit Fund which pays premiums charged for coverage of retired employees:

| State Appropriations | FY 2011-12         | FY 2012-13           | Biennium             |
|----------------------|--------------------|----------------------|----------------------|
| General Fund         | 7,119,541          | 102,151,104          | 109,270,645          |
| Highway Fund         | 332,245            | 4,767,052            | 5,099,297            |
| Other Receipt Funds  | <u>1,468,770</u>   | <u>21,073,896</u>    | <u>22,542,666</u>    |
| <b>TOTAL</b>         | <b>\$8,920,556</b> | <b>\$127,992,052</b> | <b>\$136,912,608</b> |

The appropriations and budgeted receipts highlighted above result from a 5.3% increase in annual premium rates for the fiscal year beginning July 1, 2011, partially offset by new employee and retiree premiums, and an additional annual premium increase of 5.3% for the fiscal year beginning July 1, 2012.

In addition, total additional contributions projected to be paid by active and retired employees for their own coverage on a partially contributory basis, and premium charges for fully contributory coverage of their dependent children and/or spouses, are as follows:

| Coverage Category  | FY 2011-12          | FY 2012-13           | Biennium             |
|--------------------|---------------------|----------------------|----------------------|
| Employee Coverage  | 57,405,761          | 71,818,378           | 129,224,139          |
| Retiree Coverage   | 17,858,739          | 22,788,680           | 40,647,419           |
| Dependent Coverage | <u>13,066,442</u>   | <u>41,685,531</u>    | <u>54,751,973</u>    |
| <b>TOTAL</b>       | <b>\$88,330,942</b> | <b>\$136,292,589</b> | <b>\$224,623,531</b> |

A summary of the employee/retiree premium changes are summarized in Table 1 below.

## Benefit Changes

### Medical Benefits – Out-of-Pocket Changes

The General Assembly increased the out-of-pocket requirements for plan members by increasing various co-pays, deductibles, and co-insurance requirements. The effect of these higher out-of-pocket requirements is to lower the amount of premium funding required to support the Plan for the 2011-13 biennium. A summary of the out-of-pocket changes for medical

benefit related services are summarized in Table 2 below.

### Prescription Drug Benefits – Out-of-Pocket Changes

For a 30-day supply of acute and maintenance prescription drugs, the monthly co-pay for brand drugs increased from \$35 per script to \$40 per script, non-preferred brand drugs from \$55 per script to \$64 per script and from \$10 per script to \$12 per script for generic drugs.

*For additional information, please contact:*

*Salaries and Benefits Team*  
*Stanley Moore stanleym@ncleg.net*  
*Marshall Barnes marshallb@ncleg.net*  
*David Vanderweide David.Vanderweide@ncleg.net*

*Fiscal Research Division*  
*NC General Assembly*  
*300 N. Salisbury St., Room 619*  
*Raleigh, North Carolina 27603-5925*  
*(919) 733-4910*  
<http://www.ncleg.net/fiscalresearch>



**Table 1**

| Employee/Retiree Premiums   |                  |          |                     |          |
|---|------------------|----------|---------------------|----------|
| Coverage Type   | Basic 70/30 Plan |          | Standard 80/20 Plan |          |
|   | Current          | New      | Current             | New      |
| Non-Medicare Active Employee/Retiree  |                  |          |                     |          |
| Employee/Retiree Only   | \$0.00           | \$0.00   | \$0.00              | \$21.62  |
| Employee/Retiree + Child(ren)   | \$178.68         | \$188.12 | \$237.62            | \$271.80 |
| Employee/Retiree + Spouse   | \$460.36         | \$484.70 | \$547.48            | \$598.04 |
| Employee/Retiree + Family   | \$490.34         | \$516.26 | \$580.44            | \$632.74 |
| Medicare Primary for Both Employee/Retiree and Dependent(s)   |                  |          |                     |          |
| Employee/Retiree Only   | \$0.00           | \$0.00   | \$0.00              | \$10.00  |
| Employee/Retiree + Child(ren)   | \$136.04         | \$133.84 | \$180.88            | \$200.44 |
| Employee/Retiree + Spouse   | \$343.14         | \$351.90 | \$408.72            | \$440.32 |
| Employee/Retiree + Family   | \$373.12         | \$383.44 | \$441.70            | \$475.04 |
| The employer premium increased from \$410.80 per month (\$312.76 for Medicare Primary) to \$410.94 per month (\$320.64 for Medicare Primary). |                  |          |                     |          |

**Table 2**

|                                  | Basic 70/30 |         | Standard 80/20 |         |
|----------------------------------|-------------|---------|----------------|---------|
|                                  | Current     | New     | Current        | New     |
| <b>Medical Benefits</b>          |             |         |                |         |
| Plan Member Co-pays (per visit)  |             |         |                |         |
| Primary Care                     | \$30        | \$35    | \$25           | \$30    |
| Mid-Tier                         | \$55        | \$64    | \$45           | \$52    |
| Specialty Care                   | \$70        | \$81    | \$60           | \$70    |
| Urgent Care                      | \$75        | \$87    | \$75           | \$87    |
| Inpatient Hospital               | \$250       | \$291   | \$200          | \$233   |
| Emergency Room                   | \$250       | \$291   | \$200          | \$233   |
| Annual Deductible (Individual)   |             |         |                |         |
| In-network                       | \$800       | \$933   | \$600          | \$700   |
| Out-of-network                   | \$1,600     | \$1,866 | \$1,200        | \$1,400 |
| Coinsurance Maximum (Individual) |             |         |                |         |
| In-network                       | \$3,250     | \$3,793 | \$2,750        | \$3,210 |
| Out-of-network                   | \$6,500     | \$7,586 | \$5,500        | \$6,420 |