



Salaries and Benefits

2013-15 Fiscal Biennium Budget Highlights

Fiscal Brief

August 29, 2013

The North Carolina General Assembly House and Senate Appropriations/Base Budget Committees address statewide appropriations for compensation and benefits based on recommendations from the Chairs of the respective Appropriations Committees. This fiscal brief highlights the General Assembly's 2013 Session actions related to State employee compensation and the financing of the 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 (SHP). In addition, there are several smaller State-managed retirement systems for elected judicial and legislative officials, as well as pension funds for fire and rescue-squad workers and the National Guard.

Budget Overview

The State provides funding for salaries for State agency, department, institution, and university employees as well as the majority of local public school and community college employees. For FY 2013-14, the General Fund payroll is estimated to exceed \$11.1 billion; total payroll, including receipt revenues from State agencies, universities, local public schools, and community colleges is estimated to exceed \$15.6 billion.

The State operates several retirement systems for public employees of which TSERS is the largest. TSERS provides benefits to eligible employees of State agencies, departments, universities, local public schools, and local community colleges. As of December 31, 2011, the System had approximately 311,000 contributing members and paid retirement benefits of \$3.5 billion annually to 172,000 beneficiaries. The System was considered 94% funded based upon the recognized assets as of December 31, 2011.¹

The SHP administers health benefit coverage for active State, local public schools, and local community colleges employees; eligible retired employees; certain dependents of active and retired employees; active and retired employees of selected local governments; and certain fire and rescue squad and National Guard members. The employer-paid premium for each active SHP member is \$5,285 for FY 2013-14.

Salaries

S.L. 2013-360, Appropriations Act of 2013 (S.B. 402), as amended by S.L. 2013-363, Modifications/2013 Appropriations Act (H.B. 112) reinstates the freeze on most salary increases for State employees and State-funded local public school and community college employees, including the freeze on automatic salary increases for certain employee groups. The salary freeze is similar to those enacted in FY 2009-10 through FY 2011-12. Public school teachers, principals, and assistant principals salaries remain the same as in FY 2012-13.

Despite the salary freeze, the 2013 General Assembly increased flexibility for salary adjustments relative to prior years in three ways:

1. Section 35.8 of S.L. 2013-363 continues the exceptions to the general salary freeze included in prior years and adds retention and equity as allowable reasons for increases for employees of The University of North Carolina system and the North Carolina Community College System.
2. The 2013 General Assembly reestablished the Salary Adjustment Fund (SAF) in Section 35.10B of S.L. 2013-360 and appropriated \$7.5 million to the fund. This is the first time that the General Assembly has funded the SAF since 2008. SAF funds can be used to fund salary increases resulting from changes in job duties, labor market disparities, or equity concerns. Executive, Legislative, and Judicial branch agencies are eligible to apply for funds from the SAF. However, The

¹ TSERS' asset market value, \$53.4 billion, exceeds the actuarially recognized assets, \$58.1 billion, because investment gains/losses are averaged over five years.



University of North Carolina system may only apply for funds for positions subject to the State Personnel Act. Local public school and community college employees are not eligible for increases through the SAF.

- Finally, the 2013 General Assembly granted salary administration flexibility for certain licensed medical professionals within all State agencies, departments, and institutions.

The 2013 General Assembly also created a \$16 million severance reserve to fund severance-related expenses for employees reduced in force. Section 35.10 authorizes this reserve and provides direction on how severance reserve funds may be used. Appendix 1 provides a summary of full-time equivalent (FTE) changes for FY 2013-14.

The 2013 General Assembly provided five bonus annual leave days to full-time permanent employees of the State, community college institutions, or local public schools and a pro rata amount of five days to part-time permanent employees (S.L. 2013-360, Sec. 35.10C). Bonus annual leave days must be used during FY 2013-14 and will expire on June 30, 2014.

Retirement

The 2013 General Assembly funded each of the State-supported retirement systems at the actuarially-determined Annual Required Contribution. Table 1 lists the additional recurring General Fund and Highway Fund appropriations to the various retirement systems or funds appropriated for the FY 2013-15 biennium. In addition, the 2013 General Assembly set aside \$56.4 million in FY 2014-15 to fund potential future contribution needs for existing benefit programs.

Table 1: FY 2013-15 Additional Appropriations for State-supported Retirement Systems

State Appropriations (Recurring)	FY 2013-14	FY 2014-15
General Fund for TSERS ¹	\$36,000,000	\$36,000,000
Highway Fund for TSERS ¹	\$1,121,000	\$1,121,000
General Fund for FRSWP ²	(\$820,000)	(\$820,000)
General Fund for CJRS ³	\$1,000,000	\$1,000,000
Future Benefit Needs	\$0	\$56,400,000
TOTAL	\$37,301,000	\$93,701,000

¹ Teachers' and State Employees' Retirement System

² Firefighters' and Rescue Squad Workers' Pension Fund

³ Consolidated Judicial Retirement System

Agency receipts 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.

Health Benefits

The State finances the SHP on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. As of June 2013, enrollment in the Plan was 668,741 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, (3) employees and retirees who elect dependent coverage, and (4) employees and retirees who enroll in contributory plans who pay a small portion of the premium for their own coverage. Total requirements for the Plan were projected to be \$3.0 billion for FY 2013-14.

Section 35.15 of S.L. 2013-360 increases the maximum annual employer contribution by 1.8 percent for FY 2013-14 and an additional 2.8 percent for FY 2014-15. Table 2 provides the additional appropriation to the Plan associated with these percent increases. The law also specifies that the Plan's Board of Trustees must adopt additional changes to reduce the average annual percentage increase in employer contributions by one.

Table 2: FY 2013-15 Additional Appropriations for State Health Plan

State Appropriations (Recurring)	FY 2013-14	FY 2014-15
General Fund	\$33,500,000	\$89,000,000
Highway Fund	\$1,700,000	\$4,450,000

S.L. 2011-85², enacted in 2011, gave broad authority to the State Treasurer and the Board to set premiums and benefit provisions. The Board voted to increase premiums by 3.6%, effective January 1, 2014, matching the 1.8% increase in maximum employer premiums for the year. The new premiums are shown in Appendix 2. The Board also voted to move to a calendar plan year, introduce Medicare Advantage plans, introduce a Consumer Directed Health Plan, and add wellness incentives, all effective January 1, 2014.

S.L. 2013-360, Section 35.17, directs the Department of State Treasurer to reimburse the General Fund for

² The short title of S.L. 2011-85 is "An act to make appropriations and adjustments for the 2011-2013 fiscal biennium to the State Health Plan for teachers and State employees; and to transfer the State Health Plan for teachers and State employees to the Office of State Treasurer."



employer medical premiums and contributions paid on behalf of active and retired law-enforcement officers by the Departments of Public Safety and Justice. This reimbursement will be made from the Separate Insurance Benefits Plan, which had assets of \$85 million in May 2013 and annual cash outflow of roughly \$1 million. The reimbursements are estimated to total \$16.5 million per year and appear in Section 2.2 of S.L. 2013-360 as an adjustment to availability

Other Legislation

S.L. 2013-405, Retirement Administrative Changes Act of 2013 (H.B. 359), changes the timing of the offset in the Disability Income Plan to align with the timing of Social Security payments, introduces a 415 excess plan, also known as a Qualified Excess Benefit Arrangement (QEBA), for the purpose of providing benefits to retirees and/or beneficiaries of TSERS and the Local Governmental Employees' Retirement System, whose benefits would otherwise be limited by Section 415 of the Internal Revenue Code. The QEBA will sunset for new retirees who retire on or after January 1, 2015 but will not affect any retirees retired as of that date. The bill also requires payment of the full actuarial cost when reinstatement to service is by settlement agreement, among other changes.

S.L. 2013-316, Tax Simplification and Reduction Act (H.B. 998), eliminates the up-to-\$4,000 tax deduction for government pensions.

S.L. 2013-324, State Health Plan/Statutory Changes-AB (H.B. 232), expands the types of employees covered by the SHP effective in 2015 to avoid penalties under the federal Affordable Care Act and specifies that retirees may only change elections during the plan year upon a qualifying event, among other changes.

Parts I through IX of S.L. 2013-382, Modernize State Human Resource Management/ RTR (H.B. 834), make organizational and administrative changes to the State Personnel Act, the Office of State Personnel, and the State Personnel Commission, which the bill renames the Office of State Human Resources and the Human Resources Commission. Parts I-IX also (1) amend the General Statutes relating to exempt positions and probationary and career State employees; (2) modify the statutes on reductions-in-force; (3) revamp the employee grievance procedures; and (4) augment the Governor's authority to reorganize

and restructure State government through the Reorganization through Reduction (RTR) program.³

For additional information, please contact:

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³ The summary of H.B. 834 was adapted from the Bill Summary which was drafted by Karen Cochrane-Brown and Barbara Riley of the Research Division, and included substantial contributions from Phyllis Pickett of the Legislative Drafting Division.



Appendix 1: Total Change in General Fund-supported FTE, FY 2013-14¹

Fiscal Year 2013-14

Subcommittee	General Fund		Fund-Shifted Positions		New	NET CHANGE
	Vacant Positions	Filled Positions	To Receipts	From Receipts	Positions Added	
Education	-	-	-	-	5.50	5.50
Health and Human Services	-	(21.00)	(14.00)	-	10.00	(25.00)
Justice and Public Safety	(117.55)	(822.40)	(4.00)	3.00	150.00	(790.95)
Natural And Economic Resources	(5.00)	(11.00)	(4.60)	63.00	35.00	77.40
General Government ²	(18.35)	(6.00)	-	1.52	64.85	42.02
Total General Fund for Operations	(140.90)	(860.40)	(22.60)	67.52	265.35	(691.03)

¹ Excludes local public school and community college employees. These employees are local, not State, employees.

² Excludes 19 position transfers from the Office of the Attorney General to other State agencies

³ Includes the Office of Information Technology Services

Appendix 2: Employee/Retiree Monthly Premiums Effective January 1, 2014¹

Coverage Type	Traditional 70/30 Plan ³	Enhanced 80/20 Plan ^{2,3}	Consumer Directed ^{2,4}
Non-Medicare Active Employee/Retiree			
	Current	New	New
Employee/Retiree Only	\$0.00	\$0.00	\$0.00
Employee/Retiree + Child(ren)	\$198.06	\$205.12	\$184.60
Employee/Retiree + Spouse	\$510.32	\$528.52	\$475.68
Employee/Retiree + Family	\$543.54	\$562.94	\$506.64

Medicare Primary for Both Employee/Retiree and Dependent(s)

			Base Medicare Advantage ⁵	
Employee/Retiree Only	\$0.00	\$0.00	\$0.00	
Employee/Retiree + Child(ren)	\$140.92	\$145.94	\$114.50	
Employee/Retiree + Spouse	\$370.50	\$383.72	\$114.50	
Employee/Retiree + Family	\$403.70	\$418.10	\$229.00	

¹ The employer premium will increase from \$432.66 per month (\$336.25 for Medicare Primary) to \$448.11 per month (\$348.25 for Medicare Primary).

² The premiums for both the Enhanced 80/20 and the Consumer Directed Health Plan (CDHP) assume that the member completes three wellness activities: smoking attestation; primary care physician selection; and a health assessment. If the member does not complete any activities, the monthly premium would increase by \$40.

³ Out-of-pocket amounts for the 70/30 and 80/20 Plans will remain the same at January 1, 2014, except that preventative services will require no out-of-pocket payment in the 80/20 Plan.

⁴ Preventative services in the CDHP require no out-of-pocket amounts. The annual deductible will be \$1,500 for an individual or \$4,500 for a family. A Health Reimbursement Account will be funded at \$500 for an employee, \$1,500 for employee + 1, or \$2,000 for employee + family. 15% coinsurance will apply until an out-of-pocket maximum of \$3,000 for an individual or \$9,000 for a family.

⁵ Out-of-pocket amounts in the Medicare Advantage-PDP Plans will generally be lower than the amounts required in the 80/20 Plan. For example: a \$20 primary care co-pay, \$40 specialist co-pay, and \$160/day hospital inpatient co-pay for days 1-10. There are no deductibles or coinsurance for medical services. Enhanced Plans are also available with even lower co-pays but higher premiums than the Base Plans.