



Salaries and Benefits

2013-15 Fiscal Biennium Budget Highlights

Fiscal Brief

October 9, 2014

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 2014 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. The State's General Fund supports the salaries of over 253,000 full-time equivalent (FTE) positions, the majority of which (nearly 156,000) are employed by the local education agencies. Appendix 1 provides FTE changes due to S.L. 2014-100. For FY 2014-15, the General Fund payroll is estimated to exceed \$10.7 billion; total payroll, including receipt revenues, is estimated to exceed \$15.4 billion.

The State operates several retirement systems for public employees of which TSERS is the largest. TSERS provides benefits to State agency, department, institution, university, local public school, and community college employees. As of December 31, 2012, the System had approximately 313,000 contributing members and paid retirement benefits of \$3.7 billion annually to 180,000 beneficiaries. The System was considered 94 percent funded based upon the recognized assets as of December 31, 2012.

The SHP administers health benefit coverage for active State agency, department, institution, university, local public school, and community college 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 \$5,378 for FY 2014-15.

S.L. 2014-100, Appropriations Act of 2014 (S.B. 744) appropriates \$429.9 million for salary increases and \$45.5 million for retirement contributions for active and retired State employees and State-funded local employees. The Appropriations Act also makes adjustments to the State Health Plan. This Fiscal Brief provides a summary of the salary and benefit-related adjustments for active and retired State employees and State-funded local employees.

Salaries

State Agency & Local Community College Employees

The Appropriations Act appropriates \$109 million to provide a \$1,000 salary increase to most permanent full-time employees of State agencies and local community colleges. The provisions in Part 35 of S.L. 2014-100 contain details about the salary increases for these employees. Section 35.10 requires the salary increase to be pro-rated for part-time permanent employees. Section 35.10A grants five non-expiring bonus days to State agency and community college employees who earn leave and are employed on September 1, 2014.

Statutory Pay Plan Employees

Three groups of State agency employees – Assistant and Deputy Clerks of Superior Court, Magistrates, and the State Highway Patrol – are paid based on statutorily-required experience-based pay plans.¹ The General Assembly froze salary increases under these

¹ These pay plans are described or authorized in G.S. 7A-102, G.S. 7A-171.1, and G.S. 20-187.3 respectively.



pay plans starting in FY 2009-10. S.L. 2014-100 reinstates these plans and provides a one-step salary increase to step-eligible employees.

The Appropriations Act makes two other changes to the step plans for FY 2014-15. First, the salary step increase for the State Highway Patrol calls for a five percent increase but the Appropriations Act grants up to a six percent increase for Troopers based on their hire date. Second, in an effort to attract and retain Magistrates, the Appropriations Act also raised the salary amount for all steps, or experience levels, on the Magistrate salary schedule; entry-level pay increased by \$2,250. Employees who were not eligible for a step increase received the \$1,000 salary increase given to other State agency employees.²

University Employees

Section 35.6 of S.L. 2014-100, Appropriations Act of 2014, provides a \$1,000 salary increase to university system employees who are subject to the North Carolina Human Resources Act (SHRA). The Appropriations Act does not grant the \$1,000 salary increase to University system employees who are exempt from (i.e. not subject to) the North Carolina Human Resources Act (EHRA). Instead, the budget appropriates \$5 million to the University System and directs the Board of Governors to develop policies for the distribution of these funds to improve employee retention.

Local Public School Employees

The Appropriations Act increases the salaries of all local public school employees, including teachers and instructional support personnel, school-based administrators, central office personnel, and non-certified personnel, and appropriates funds for the salary increase for State-funded personnel. The provisions detailing the salary increases for these employees are in Section 9 of S.L. 2014-100. The Appropriations Act does not grant local public school employees the non-expiring bonus days.

Teachers and Instructional Support

The Appropriations Act of 2014, S.L. 2014-100, appropriates \$282 million for salary increases for teachers and instructional support personnel (educators) and creates a statewide minimum teacher

² See Section 35.3(f) and Section 35.6B for Magistrate and State Highway Patrol salary and step increase details.

salary schedule. The teacher salary schedule sets the base rate of pay for all public school educators in North Carolina. The new salary schedule increases starting pay from \$3,080 per month to \$3,300 per month. Educators are paid for 10 months each school year for an annual starting State-funded salary of \$33,000. The new salary schedule provides fewer but larger salary increases than the old schedule. The FY 2014-15 salary schedule provides, on average, a seven percent increase for current educators relative to the FY 2013-14 salary schedule plus longevity payments. This percentage increase reflects the same methodology for estimating percentage salary increases for educators as reflected in Fiscal Research Division’s “Salary Increase History” (http://www.ncleg.net/FiscalResearch/Statistics_and_Data/statistics_and_data_pdfs/salaries_benefits/2014-15%20Historical_LSI.pdf). Salary increases for individual employees range from 0.3 percent to 18.5 percent.

The FY 2014-15 salary schedule remains an experience-based salary system. The new schedule recognizes 25+ years of experience and provides automatic salary increases at five points over an educator’s career – after 5, 10, 15, 20, and 25 years of experience. Table 1 provides the FY 2014-15 salary schedule as described in Section 9.1.(a). Until the changes made for FY 2014-15, the teacher salary scheduled contained at least 30 unique step and specified a different salary amount for each year of experience.³

Table 1: FY 2014-15 Teachers Salary Schedule

Years of Experience	Monthly Salary
0 – 4	\$3,300
5 – 9	\$3,650
10 – 14	\$4,000
15 – 19	\$4,350
20 – 24	\$4,650
25+	\$5,000

Section 9.1 of S.L. 2014-100 makes two other noteworthy changes. First, Section 9.1.(b) clarifies that both the Master’s degree and National Board of Professional Teacher Standards certification (NBPTS) supplements are calculated off of the “A”, or Bachelor’s, lane of the schedule. This change affects

³ Due to a policy that froze salary step increases that started in FY 2009-10, beginning in that year, there were steps on the salary schedule that had different recognized different years of experience but had the same salary.



educators with both NBPTS certification and at least a Master’s degree. Second, the new teacher pay schedule ends separate and specific longevity payments for educators for service after July 1, 2014.

Section 9.1.(e) ensures that no educator will earn less in FY 2014-15 than their FY 2013-14 base pay plus longevity payments.⁴ This provision states that any educator who does not receive a salary increase under the new salary schedule will be paid the same as in FY 2013-14 and receive a nonrecurring \$1,000

The Appropriations Act provides funds to give a step and salary increase to State agency teachers who are paid at the rates defined in the teacher salary schedule. State agency teachers include teachers within the University System’s North Carolina School of Science and Math and the Departments of Health and Human Services, Public Instruction, and Public Safety.

School-based Administrators

Each year, the Appropriations Act establishes the school-based administrator (SBA) salary schedule. This salary schedule sets the statewide minimum salary for assistant principals and principals. Historically, the SBA salary schedule was one percent higher than the Master’s degree lane of the teachers salary schedule. In FY 2014-15, the salary schedule outlined in Section 9.11 of S.L. 2014-100 ends this relationship, resulting in some teachers being paid a higher salary than an SBA with comparable education, credentialing, and experience.

However, G.S. 115C-285(a)(8) ensures that assistant principals are paid at least as much as they would be paid on the teacher salary schedule. The FY 2014-15 salary schedule provides, on average, a two percent increase for SBAs. Any permanent full-time SBA who does not receive a salary increase on the new schedule is granted an \$809 bonus. S.L. 2014-100 appropriates over \$5.8 million for SBA salary increases.

Noncertified and Central Office Personnel

Sections 9.12 and 9.13 of S.L. 2014-100 provide for a \$500 salary increase to State-funded permanent full-

⁴ While all educators will be paid more in FY 2014-15 than in FY 2013-14, the increase in FY 2014-15 pay for a few educators, primarily those with 30 years of more of experience, is in the form of a non-recurring \$1,000 bonus. See Section 9.1(e) of S.L. 2014-100.

time non-certified and central office personnel. This salary increase requires a \$32.6 million recurring appropriation. The salary increase is pro-rated for part-time permanent employees.

Retirement

The 2014 General Assembly funded each of the State-supported retirement systems at the actuarially-determined Annual Required Contribution. Table 2 lists the changes in recurring General Fund and Highway Fund appropriations to the various retirement systems for the FY 2014-15 fiscal year.

Table 2: FY 2014-15 Changes in Appropriations for State-supported Retirement Systems

State Appropriations (Recurring)	FY 2014-15
General Fund for TSERS ¹	\$45,498,600
Highway Fund for TSERS ¹	\$1,513,400
General Fund for FRSWP ²	(\$726,599)
General Fund for CJRS ³	(\$560,000)
General Fund for NGPF ⁴	(\$968,169)
TOTAL	\$44,757,232

¹ Teachers’ and State Employees’ Retirement System

² Firefighters’ and Rescue Squad Workers’ Pension Fund

³ Consolidated Judicial Retirement System

⁴ National Guard Pension Fund

The additional appropriations for TSERS were distributed throughout the Committee Report, instead of being consolidated in the Reserves section, based on the estimated fraction of payroll represented by each subset of the employee population.

Section 35.14 of S.L. 2014-100 provides a cost-of-living adjustment of one percent (1%) to retirees of the Teachers’ and State Employees’ Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System.

Section 35.15C of S.L. 2014-100 increases monthly benefits in the National Guard Pension Fund to \$99 (formerly \$95) per month with 20 years of service, increasing to \$198 (formerly \$190) per month with 30 years of service.

Health Benefits

The State finances the SHP on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement, with the exception of most Medicare-eligible retirees who



participate in fully-insured Medicare Advantage plans. As of June 2014, enrollment in the Plan was 678,144 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 2014-15.

Section 35.13 of S.L. 2014-100 increases the maximum annual employer contribution by 1.8 percent for FY 2014-15. The State Treasurer has indicated her intention to keep premiums for members and employers constant through December 2015 due to positive financial experience in the Plan. However, the annual contribution must still increase to apply the January 2014 monthly premium increase to a full fiscal year. Table 3 provides the additional appropriation to the Plan associated with this percent increase, relative to FY 2012-13.

Table 3: FY 2014-15 Changes in Appropriations for State Health Plan

State Appropriations (Recurring)	General Fund	Highway Fund
Appropriation in S.L. 2013-360	\$89,000,000	\$4,450,000
Adjustment in S.L. 2014-100	(\$22,000,000)	(\$1,050,000)
Net Appropriation	\$67,000,000	\$3,400,000

Section 35.16 of S.L. 2014-100 authorizes the SHP to create alternative, less expensive coverage for employees newly eligible due to the employer mandate in the federal Affordable Care Act. The employees affected would generally be temporary and other non-permanent employees working an average of at least 30 hours per week. These employees have not previously been offered coverage in the SHP.

S.L. 2011-85,⁵ enacted in 2011, gave broad authority to the State Treasurer and the Board to set premiums and benefit provisions. The State Treasurer and Board have not made any significant changes in benefit provisions for 2015, other than offering the alternative coverage described above. The current premiums are shown in Appendix 2.

Other Legislation

⁵ The short title of S.L. 2011-85 is “State Hlth Plan/Appropriations & Transfer II.”

S.L. 2014-64, Volunteer Fire and Rescue Finances (PED) (H.B. 1034), allows pension benefits in the Firefighters’ and Rescue Squad Workers’ Pension Fund to commence even if the retiree is still employed as a paid firefighter or rescue squad worker. It also makes various other changes not affecting the Fund.

S.L. 2014-88, Fiscal Integrity/Pension-Spiking Prevention (H.B. 1195), addresses pension spiking by creating a contribution-based benefit cap requiring additional contributions from employers whose retirees’ benefits exceed a multiple of their employee contributions. It also changes the law to pay interest on the return of employee contributions for members with less than five years of service and reduces the vesting period in the Teachers’ and State Employees’ Retirement System and Consolidated Judicial Retirement System to five years from the current ten years for those hired on or after August 1, 2011.

S.L. 2014-75, Add Towns to SHP (S.B. 105), and S.L. 2014-105, Montgomery Co. Employees in State Health Plan (S.B. 376), allow Montgomery County and the towns of Elizabethtown and Matthews to enroll their employees and dependents, but not their retirees, in the SHP.

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Appendix 1: Total Change in General Fund-supported FTE, FY 2014-15 ¹

Fiscal Year 2014-15					
Subcommittee	General Fund				
	Vacant Positions	Filled Positions	New Positions	Fund-shifted to Receipts	NET CHANGE
Education	(2.80)	-	-	-	(2.80)
Health and Human Services	(19.46)	(7.49)	10.00	-	(16.95)
Justice and Public Safety	(91.50)	(323.00)	122.75	(4.25)	(296.00)
Natural And Economic Resources	(6.72)	(4.00)	-	(3.50)	(14.22)
General Government ²	(31.00)	(6.55)	60.00	(1.00)	21.45
Total General Fund for Operations	(151.48)	(341.04)	192.75	(8.75)	(308.52)

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

² Includes the Office of Information Technology Services



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

Coverage Type	Traditional 70/30 Plan	Enhanced 80/20 Plan²	Consumer Directed²
Non-Medicare Active Employee/Retiree			
Employee/Retiree Only	\$0.00	\$13.56	\$0.00
Employee/Retiree + Child(ren)	\$205.12	\$286.36	\$184.60
Employee/Retiree + Spouse	\$528.52	\$642.10	\$475.68
Employee/Retiree + Family	\$562.94	\$679.94	\$506.64

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

	Traditional 70/30 Plan	Base Medicare Advantage	
Employee/Retiree Only	\$0.00	\$0.00	
Employee/Retiree + Child(ren)	\$145.94	\$114.50	
Employee/Retiree + Spouse	\$383.72	\$114.50	
Employee/Retiree + Family	\$418.10	\$229.00	

¹ The employer premium is \$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.