



# Salaries and Benefits

## 2015-17 Fiscal Biennium Budget Highlights

Fiscal Brief

October 23, 2015

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 2015 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.

### Salaries & Benefits Background

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 nearly 249,000 full-time equivalent (FTE) positions, the majority of which (over 170,000) are employed by the local education agencies. For FY 2015-16, the General Fund payroll is estimated to exceed \$10.9 billion. Total payroll, including agency receipts, is estimated to exceed \$16.0 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, 2013, TSERS had approximately 310,000 contributing members and paid retirement benefits of \$3.9 billion annually to 190,000 beneficiaries. Based upon the recognized assets as of December 31, 2013, TSERS was considered to be 95 percent funded.

The SHP administers health benefit coverage for 685,000 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 \$5,471 for FY 2015-16. Total requirements for FY 2015-16 are roughly \$3.0 billion.

S.L. 2015-241, 2015 Appropriations Act (H.B.97), as amended by S.L. 2015-268, General Government Technical Corrections (H.B. 259), and S.L. 2015-264, GSC Technical Corrections 2015 (S.B. 119) appropriates \$313 million for salary increases and the compensation bonus and \$36 million for retirement and SHP contributions for active and retired State employees and State-funded local employees. This fiscal brief provides a summary of the salary and benefit-related adjustments for active and retired State employees and State-funded local employees, including information on:

- The compensation bonus provided to all State employees and State-funded local employees;
- Salary increases for certain employees such as those paid in accordance with a statutory pay plan, correctional officers, and community college employees;
- Changes to the teacher and school-based administrator salary schedules;
- Funding for market-based salary adjustments;
- Changes to the State workers' compensation program; and
- Funding for the State's retirement systems and the State Health plan.

### Salaries

The 2015 Appropriations Act appropriates over \$313 million to provide salary increases a compensation bonus to permanent full-time employees of State agencies and local community colleges and education agencies. The General Assembly did not appropriate funds for general salary increases but there is no restriction on individual increases pursuant to existing



human resources laws and policies. Appendix 1 provides FTE changes due to S.L. 2015-241.

This section of the fiscal brief will detail the:

- Compensation bonus provided to all State employees and State-funded local employees;
- Salary increases for certain employees such as those paid in accordance with a statutory pay plan, correctional officers, and community college employees;
- Changes to the salaries of local public school employees, including the teacher and school-based administrator salary schedules;
- Funding provided for market-based salary adjustments, including the Salary Adjustment Fund, the Office of State Human Resources' (OSHR) salary structure changes, and other miscellaneous adjustments; and
- Consolidate of and funding for the State's workers' compensation program.

#### *State Agency & Local Community College Employees*

The provisions in Part 30 of S.L. 2015-241 contain details about the salary-related changes and compensation bonus for State employees, including those employed by the university system, legislative and judicial branches, as well as State-funded employees of the State's 58 community colleges.

#### Compensation Bonus

S.L. 2015-241, 2015 Appropriations Act, appropriates \$202 million on a nonrecurring basis to provide a \$750 bonus to permanent full-time employees of State agencies, including University of North Carolina (UNC) system employees, and local community colleges who are employed on November 1, 2015. The specifications of the compensation bonus are outlined in Section 30.18A, including the requirement that the bonus be pro-rated for part-time permanent employees and that it be paid in December 2015.

#### Statutory Pay Plan Employees

Three groups of State agency employees – assistant and deputy clerks of Superior Court, magistrates, and the State Highway Patrol troopers – are paid based on statutorily-required experience-based pay plans.<sup>1</sup> S.L. 2015-241 provides a one-step salary increase to step-

<sup>1</sup> G.S. 7A-102, G.S. 7A-171.1, and G.S. 20-187.3 respectively.

eligible employees who are Assistant and Deputy Clerks of Superior Court, Magistrates, and the State Highway Patrol.

In addition to a step increase, Section 30.15 grants a 3% market-based adjustment for all sworn members of the State Highway Patrol, regardless of whether the member is eligible for a step increase. These funds are also to be used to increase the starting pay of a newly-sworn trooper from \$35,000 to \$36,050. In addition, these employees receive the \$750 compensation bonus.

#### Correctional Officers

S.L. 2015-241 provides over \$12.7 million in FY 2015-16 and over \$25.5 million in FY 2016-17 to begin to implement a salary structure based on facility custody level for correctional officers. The Department of Public Safety (DPS) has flexibility in implementing differentiated pay. The new pay structure anticipates increasing correctional officer pay from a salary grade 62 to a salary grade 63 for officers who work in a minimum security facility, a grade 64 for those in a medium security facility, and a grade 66 for officers in a close custody (i.e. maximum security) facility. DPS may begin implementing salary adjustments effective January 1, 2016 and is expected to need additional funds in order to fully implement the differentiated pay structure.

#### Community College Employees

The 2015 Appropriations Act, S.L. 2015-241, provides \$10 million in FY 2015-16 and \$20 million in FY 2016-17 for salary increases for local community college employees. Section 30.5 gives local community college boards of trustees the ability to develop policies for the distribution of these funds to their employees based on guidelines set forth by the State Board of Community Colleges.

#### *Local Public School Employees*

Part 9 of S.L. 2015-241 provides details on the salary-related provisions for State-funded local education agency employees.

#### Teachers and Instructional Support

The 2015 Appropriations Act establishes the teacher monthly salary schedule for FY 2015-16, which sets the statewide minimum salary for educators. The



2015 Appropriations Act appropriates \$62.2 million for recurring salary increases for teachers and instructional support personnel (educators). These increases are the result of four actions:

- Increasing starting educator pay from \$3,300 per month to \$3,500 per month for educators with a bachelor’s degree<sup>2</sup>;
- Funding increases associated with movement between the salary schedule tiers due to increased employee experience. For example, a teacher moving from Tier 2 to Tier 3 (see Table 1) would receive a monthly salary increase of \$350;
- Continuing the hold harmless and bonus for educators subject to Section 9.1(e) of S.L. 2014-100. This section held harmless the salary of any educator that would otherwise have been disadvantaged by the FY 2014-15 salary schedule changes and provided these educators with a \$1,000 nonrecurring bonus; and
- Funding a new sixth salary tier for school psychologists, audiologists, and speech pathologists.

The 2015 Appropriations Act funds these changes for 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.

An estimated 29,000 teachers will receive a permanent raise from the increase in the first tier or moving to a new tier, but all 94,000 State-paid teachers will receive the \$750 compensation bonus. S.L. 2015-241 appropriates over \$79.5 million to fund this bonus for educators.

Table 1 provides the FY 2015-16 salary schedule as described in Section 9.1.(a).

<sup>2</sup> Starting pay for educators with a bachelor’s degree, commonly called the “A” schedule, increased from \$3,300 per month to \$3,500 per month. There are several other schedules based off of the “A” schedule that are for educators with a master’s, National Board of Professional Teaching Standards certification, etc. Thus, the starting pay increase affected the other schedules as well. The relationship between the “A” schedule and other the schedules remain unchanged, see S.L. 2015-241, Section 9.1(b), (c).

**Table 1: FY 2015-16 Teachers Salary Schedule**

Tier	Yrs of Experience	Bachelors Monthly Salary
1	0 – 4	\$3,500
2	5 – 9	\$3,650
3	10 – 14	\$4,000
4	15 – 19	\$4,350
5	20 – 24	\$4,650
6	25+	\$5,000

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. Other than an adjustment to the first step of the Assistant Principal schedule to reflect the continuation of the \$809 bonus granted in Section S.L. 2014-100, Section 9.11.(i), the SBA schedule remains unchanged. Approximately \$4.5 million is appropriated to continue the FY 2014-15 bonus and fund a step increase for SBAs. Another \$3.6 million is appropriated on a nonrecurring basis to fund the \$750 bonus for school-based administrators.

Section 9.5 of S.L. 2015-241 amends S.L. 2009-451, Section 7.22(b) by removing the July 1, 2009 hiring date threshold in order to be eligible to be paid on the teacher salary schedule if that salary is greater than the salary on the assistant principal schedule. Section 3.3 of S.L. 2015-268, General Government Technical Corrections (H.B. 259), adds language to Section 9.5 of S.L. 2015-241 to clarify that assistant principals hired prior to July 1, 2009 will not have their compensation changed for work performed between July 1, 2009 and July 1, 2015. Section 9.5 also amends G.S. 115C-285(a) adding a new section to ensure that assistant principals who become principals are paid at least as much as they would have been paid as an assistant principal. Together, these changes ensure that there will not be a financial penalty to any teacher who becomes an SBA.

Noncertified and Central Office Personnel

The General Assembly did not increase the salaries of non-certified and central office personnel. However, State-funded permanent full-time non-certified and central office personnel will receive the \$750



compensation bonus. The bonus requires a \$39.8 million nonrecurring appropriation.

**Funds for Market-based Adjustments**

The General Assembly appropriated funds for market-based adjustments for State employee salaries including: (1) the Salary Adjustment Fund; (2) salary adjustments resulting from OSHR compensation structure changes; and (3) various salary increases based on market discrepancies, including the 3% increase for sworn members of the State Highway Patrol and an increase for forensic scientists in the State Crime Laboratory.

**Salary Adjustment Fund (SAF)**

The General Assembly appropriated \$12.5 million to the fund for FY 2015-16 and \$25m for FY 2016-17.<sup>3</sup> The parameters of SAF are outlined in Section 30.12A of S.L. 2015-241, and SAF funds can be used to fund salary adjustments to ensure competitive salaries and require agency requests to be documented through data and analysis in accordance with accepted human resource practices. Local public schools, community colleges, and the UNC System are not eligible to apply for funds from the SAF. Section 30.12A.(b) requires SAF to be used to fund two specific salary increases: (1) the Secretary of the newly-formed Department of Military and Veterans Affairs (\$33,749) and (2) the Director of the Transportation Museum (\$30,715).

**OSHR Compensation Structure Changes**

The General Assembly appropriated \$12 million for FY 2016-17 to a reserve for OSHR compensation structure changes.<sup>4</sup> These changes consolidate the State’s two primary compensation structures: the graded system and the banded systems. As part of this effort to update the system, all job classifications have been reviewed and compared to existing market rates; salaries for job classifications that fall below the acceptable range of market pay will be increased upon implementation of the new system.

**Workers’ Compensation**

Section 30.18 of S.L. 2015-241 restructures and provides funds for the State’s workers’ compensation

<sup>3</sup> In addition to this appropriation, the budget includes an \$7.5 million recurring reduction to correct the base budget.

<sup>4</sup> <http://oshr.nc.gov/state-employee-resources/classification-compensation>

program. Administration of workers’ compensation benefits for State agencies is consolidated into the OSHR; the Department of Public Instruction continues to administer workers’ compensation for local education agencies. As part of the consolidation, three vacant positions within the Department of Administration will be moved to OSHR to support the workers’ compensation office. OSHR is required to report to the Joint Legislative Commission on Governmental Operations on the implementation of this consolidation by February 1, 2016.

In addition, the General Assembly appropriated over \$21.5 million in recurring funds to a reserve within the Office of State Budget and Management to be used to budget workers’ compensation line items in each State agency’s budget. Currently, many agencies do not have budgets for workers’ compensation despite having workers’ compensation expenditures each year. Most agencies have historically funded workers’ compensation using lapsed salaries. In addition, \$2 million nonrecurring plus 50% of any funds remaining in compensation and benefit reserves, is appropriated to close existing workers’ compensation claims.<sup>5</sup>

**Retirement**

The General Assembly funded each of the State-supported retirement systems at the actuarially-determined Annual Required Contribution (ARC) or higher. In particular, the TSERS contribution rate is maintained at the FY 2014-15 rate of 9.15% of pay even though the ARC has declined to 8.69%. Table 2 lists the changes in recurring General Fund appropriations to the various retirement systems for the 2015-17 fiscal biennium.

**Table 2: Additional Appropriations for State-supported Retirement Systems**

State Appropriations (Recurring)	FY 2015-16	FY 2016-17
General Fund for LRS <sup>1</sup>	\$65,160	\$65,160
General Fund for NGPF <sup>2</sup>	<u>\$1,027,025</u>	<u>\$1,027,025</u>
<b>TOTAL</b>	<b>\$1,092,185</b>	<b>\$1,092,185</b>

<sup>1</sup> Legislative Retirement System

<sup>2</sup> National Guard Pension Fund

The 2015 Appropriations Act includes an increase for the monthly benefits to members of the National Guard Pension Fund to \$105 (formerly \$99) per month with 20 years of service, increasing to \$210 (formerly

<sup>5</sup> See Section 30.10 of S.L. 2015-241 for authorized uses of the compensation and benefit reserves.



\$198) per month with 30 years of service, in Section 30.24.

**State Health Plan**

The 2015 Appropriations Act increases employer contributions to the SHP, appropriates funds to pay the increased contributions, encourages the State Treasurer and Board of Trustees to reduce future growth in employer contributions, and modifies the coverage offered to rehired retirees.

The SHP operates 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 May 2015, enrollment in the SHP was 685,243 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. The SHP currently projects total requirements to be \$3.0 billion for FY 2015-16.

Section 30.20 of S.L. 2015-241 increases the maximum annual employer contribution by 1.7% for FY 2015-16. The Board of Trustees typically increases employer contributions in January, to coincide with the plan year, so the monthly contribution can increase by as much as 3.4% at that time. Table 3 provides the additional appropriation to the Plan associated with this percent increase, relative to FY 2014-15.

**Table 3: Changes in Appropriations for State Health Plan**

State Appropriations (Recurring)	FY 2015-16	FY 2016-17
General Fund	\$35,195,436	\$35,195,436
Highway Fund	\$994,571	\$994,571
Reserve for Future Benefit Needs <sup>1</sup>		\$71,000,000

<sup>1</sup> Included in Table 3 because Section 30.26 of S.L. 2015-241 connects the Reserve to the SHP and because the amount is roughly equal to the Board’s request for FY 2016-17.

Additional appropriations for the SHP are reflected in agency budgets in the Committee Report.

Section 30.26 of S.L. 2015-241 states the General Assembly’s intent to use the Reserve for Future

Benefit Needs to increase employer contributions in FY 2016-17 if the State Treasurer and Board adopt measures to limit employer contribution increases in the 2017-19 fiscal biennium. This section also requires the SHP to maintain a cash reserve of 20% of annual expenses during the 2015-17 fiscal biennium.

Section 30.25 of S.L. 2015-241 allows rehired retirees employed full-time (as defined in the federal Affordable Care Act) to enroll in regular SHP coverage, rather than the bronze-level coverage currently offered, if the employing unit elects to be covered by this provision.

Article 3B of Chapter 135 of the General Statutes gives broad authority to the State Treasurer and the Board to set premiums and benefit provisions. For 2016, the State Treasurer and Board have increased employee premiums by 2.8%, increased premium credits for wellness activities, increased some out-of-pocket amounts, and introduced a new health engagement program in the Consumer Directed Health Plan. New premiums for the SHP are shown in Appendix 2.

**Other Legislation**

S.L. 2015-112, Local Governments in State Health Plan (H.B. 154), permits additional local governments to enroll active employees and dependents, but not retirees, in the SHP until the total number of local government employees and dependents reaches 10,000.

S.L. 2015-168, Agency Participation Procedures Act of 2015 (H.B. 276), modifies the procedures for charter schools and local governments to join and/or cease participating in the State and local retirement systems.

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**Appendix 1: Total Change in General Fund-supported FTE, FY 2015-16 <sup>1</sup>**

<b>Fiscal Year 2015-16</b>					
<b><u>General Fund</u></b>					
<b>Subcommittee</b>	<b>Vacant Positions</b>	<b>Filled Positions</b>	<b>New Positions</b>	<b>Fund-shifted to Receipts</b>	<b>NET CHANGE</b>
Education	-	-	7.00	-	<b>7.00</b>
Health and Human Services	(57.00)	-	44.00	-	<b>(13.00)</b>
Justice and Public Safety	(3.00)	(15.00)	148.00	(1.17)	<b>128.83</b>
Natural And Economic Resources <sup>2,3</sup>	(2.00)	(7.20)	14.00	(14.34)	<b>(9.54)</b>
General Government	-	-	9.00	(0.50)	<b>8.50</b>
<b>Total General Fund for Operations</b>	<b>(62.00)</b>	<b>(22.20)</b>	<b>222.00</b>	<b>(16.01)</b>	<b>121.79</b>

<sup>1</sup> Excludes local public school and community college employees. These employees are local, not State, employees.

<sup>2</sup> Filled positions include 4.1 positions eliminated in the transfer of positions from the former Department of Environment and Natural Resources to the Department of Cultural Resources

<sup>3</sup> New positions include 2 positions fund-shifted from One NC receipts to the General Fund.



**Appendix 2: Employee/Retiree Monthly Premiums Effective January 1, 2016<sup>1</sup>**

<b>Coverage Type</b>	<b>Traditional 70/30 Plan</b>	<b>Enhanced 80/20 Plan<sup>2</sup></b>	<b>Consumer Directed<sup>2</sup></b>
<b>Non-Medicare Active Employee/Retiree</b>			
Employee/Retiree Only	\$0.00	\$14.20	\$0.00
Employee/Retiree + Child(ren)	\$210.92	\$294.72	\$189.82
Employee/Retiree + Spouse	\$543.46	\$660.52	\$489.14
Employee/Retiree + Family	\$578.86	\$699.42	\$520.96

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

	<b>Traditional 70/30 Plan</b>	<b>Base Medicare Advantage</b>	
Employee/Retiree Only	\$0.00	\$0.00	
Employee/Retiree + Child(ren)	\$150.06	\$132.00	
Employee/Retiree + Spouse	\$394.56	\$132.00	
Employee/Retiree + Family	\$429.92	\$264.00	

<sup>1</sup> Employer premium is \$463.68 per month (\$360.24 for Medicare Primary).

<sup>2</sup> Premiums for Enhanced 80/20 and Consumer Directed Health Plan (CDHP) assume member completes three wellness activities: smoking attestation; primary care physician selection and Patient Centered Medical Home video viewing; and a health assessment. If not completed, the monthly premium would increase by \$80 to \$90.