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 2012 Session actions to fund across-the-board compensation increases and 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. 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.

**Executive Summary**

The State provides funding for the salaries of 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 $10.9 billion for FY 2012-2013. Total payroll is expected to exceed $15.27 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, 2011, the System had approximately 311,000 contributing members and paid retirement benefits of $3.5 billion annually to 171,786 beneficiaries. As of December 31, 2011, the market value of assets totaled $53.4 billion while the actuarially recognized assets totaled approximately $58.1 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 94% funded (i.e., $0.94 in assets for each $1.00 of liabilities) based upon the recognized assets as of December 31, 2011.

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**

S.L. 2012-142, Modify 2011 Appropriations Act (H.B. 950), as amended by S.L. 2012-145, Modifications/2012 Appropriations Act (S.B. 187), appropriates $159.9 million to provide a 1.2% salary increase to State-funded employees of State agencies, departments, institutions, the Judicial Branch, and public schools; to university employees who are subject to the State Personnel Act; and to non-elected employees of the Legislative Branch. In addition, it provides funding equal to the amount necessary to support a 1.2% salary increase for State-funded employees of community colleges and university employees exempt from the State Personnel Act (EPA) and authorizes the State Board of Community
Colleges and the University Board of Governors to use this funding to award compensation increases, to offset management flexibility reductions, or to employ personnel.

Section 25.5 of S.L. 2012-142, as added by Section 6B.1 of S.L. 2012-145, provides five bonus annual leave days to full-time permanent employees of the State, community college institutions, or local boards of education and a pro rata amount of five days to part-time permanent employees. Bonus annual leave days must be used during Fiscal Year 2012-13 and will expire on June 30, 2013 if not used.

Retirement

Section 25.12 of S.L. 2012-142, Modify 2011 Appropriations Act, allows all employees, both EPA and SPA, hired on or after January 1, 2013 by the University of North Carolina System to have a choice of which retirement program they want to participate. All employees will have a choice between the Teachers’ and State Employees’ Retirement System (a defined benefit plan) or the Optional Retirement Program (a defined contribution plan).

Section 25.13 of S.L. 2012-142, Modify 2011 Appropriations Act, 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.

Other Legislation

Session Law 2012-193, No Public Retirement for Convicted Felons, prohibits any member of the Teachers’ and State Employees’ Retirement System, the Consolidated Judicial Retirement System, the Legislative Retirement System, the Local Governmental Employees’ Retirement System, the University Optional Retirement Program, and the Community College Optional Retirement Program from receiving any retirement benefits if the member is convicted of any felony (under federal law or the laws of North Carolina) committed after December 1, 2012, provided the conviction was due to conduct of the member that was directly related to the member’s office or employment.

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 June 2012, enrollment in the Plan was 663,731 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 $3.0 billion for FY 2012-13.

S.L. 2011-85, enacted in 2011, gave broad authority to the State Treasurer and the Plan’s Board of Trustees to set premiums and benefit provisions. The Board voted to increase premiums by 5.3%, effective July 1, 2012, as shown in Table 1. The Board did not make any significant changes to benefit provisions for the 2012-13 plan year.

S.L. 2012-142, Modify 2011 Appropriations Act authorized the Plan to spend additional receipts from the Plan’s trust fund on administrative expenses for an Employer Group Waiver Plan (EGWP), which is expected to increase the Plan’s net income by around $19 million per year.

S.L. 2012-173, State Health Plan/Statutory Changes – AB, (H.B. 1085) limited the times during the year at which new members may be enrolled and eliminated from the Plan’s long-term care insurance program, among other changes.

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Table 1

<table>
<thead>
<tr>
<th>Coverage Type</th>
<th>Basic 70/30 Plan</th>
<th>Standard 80/20 Plan</th>
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<tbody>
<tr>
<td>Non-Medicare Active Employee/Retiree</td>
<td></td>
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<tr>
<td>Employee/Retiree Only</td>
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<td>$0.00</td>
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<tr>
<td>Employee/Retiree + Child(ren)</td>
<td>$188.12</td>
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<td>Medicare Primary for Both</td>
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<td>Employee/Retiree + Family</td>
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</table>

The employer premium increased from $410.94 per month ($320.64 for Medicare Primary) to $432.66 per month ($336.25 for Medicare Primary).