Program Evaluation Division
North Carolina General Assembly

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Compared to Other States' Retirement Plans, TSERS is Well Funded and Its Plan Features Are Typical or Less Generous

Summary

As directed by the North Carolina General Assembly's Joint Legislative Program Evaluation Oversight Committee, this study compares North Carolina's state retirement system to other state retirement systems. This report focuses on the North Carolina Teachers' and State Employees' Retirement System (TSERS) because it covers the majority of current and former government employees. This study addresses six research questions:

1. **Who makes decisions about TSERS?** Several different entities play a key role in the operation of TSERS. The General Assembly determines the features of the retirement benefit and how much employees and the State contribute to TSERS.
2. **What are the plan features of TSERS and what other benefits are available to members of TSERS?** TSERS is a defined benefit plan that provides employees with lifetime retirement income based on a formula that accounts for years of service and salary. Members of TSERS can participate in at least two supplemental retirement plans, and they are eligible for Social Security and State Health Plan benefits in retirement.
3. **How do the plan features of TSERS compare to other state retirement systems?** There are no plan features on which TSERS is more generous than other states' plans. TSERS's employee contribution rate and normal retirement are typical and its vesting period, final average salary, and formula multiplier are less generous than other states' plans.
4. **How would altering the plan type or features of TSERS affect the system?** It is not clear there would be long-term savings from changing from a defined benefit to a defined contribution plan. The General Assembly could change plan features for future hires or those not yet vested to reduce the State's costs in providing its retirement benefit. However, lawmakers have to weigh the tradeoff between reducing the State's costs and the State's ability to recruit and retain qualified personnel to deliver essential public services.
5. **How is TSERS funded?** TSERS is funded from employee contributions, state contributions, and investment income. The General Assembly set employee contribution at 6% of compensation in 1975 and determines the state contribution each year as part of the budget process. In 2010, employees contributed $835.8 million, the State contributed $583 million, and investment income contributed $5.7 billion.
6. **How does TSERS funding status compare to other state retirement systems?** The Program Evaluation Division ranked state retirement plans for state employees and teachers using three key measures of funding status. TSERS ranked sixth out of 84 plans in 2009. Strong performance on these measures indicates the State is accumulating the assets needed to make future payments for benefits accrued to date.