

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

A presentation to the
Joint Legislative Program Evaluation Oversight Committee

September 26, 2011

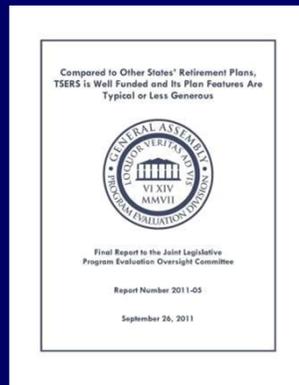
Kiernan McGorty, Senior Evaluator



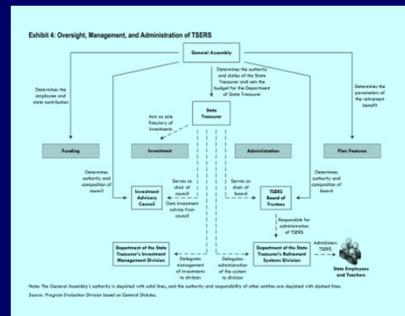
Handouts

The Full Report

Today's Slides



Two-sided Handout



Evaluation Team



Kiernan McGorty, Evaluation Lead

Michelle Beck, Senior Evaluator

Carol Shaw, Principal Evaluator

Pamela Taylor, Statistician



Our Charge

Joint Legislative Program Evaluation Oversight Committee directed the Division to compare North Carolina's state retirement system to national standards and to other state retirement systems

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Overview

1. General Assembly determines TSERS plan type and features
2. TSERS plan features are either typical or less generous than other state's plans
3. Changes to plan features to reduce costs may affect the state's ability to recruit and retain qualified personnel



Overview

4. General Assembly determines how much employees and state contribute to TSERS
5. Historically the General Assembly has appropriated the state contribution needed to cover the plan's obligations
6. TSERS ranked as the 6th best funded state retirement plan in 2009



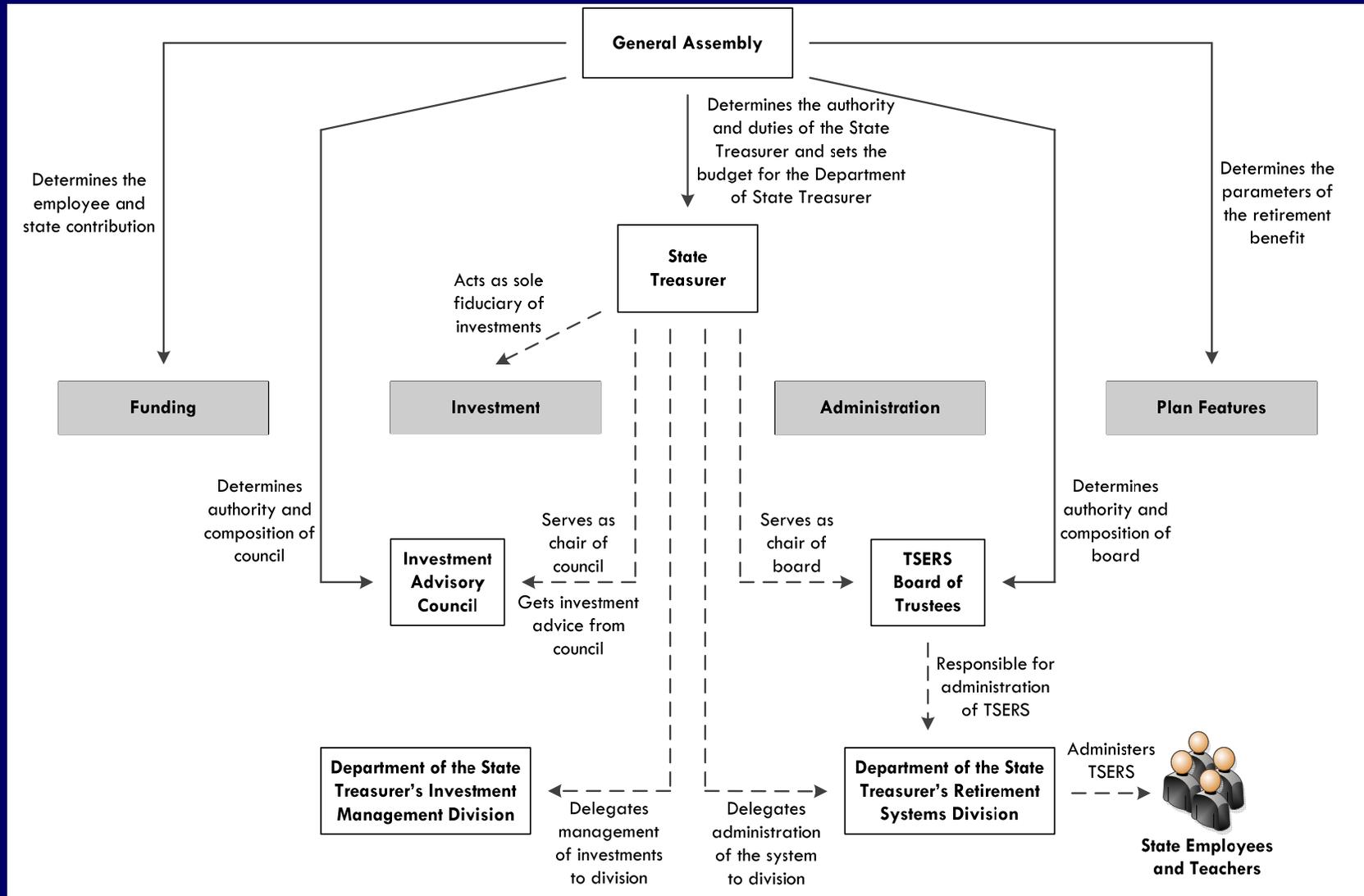
Teachers' and State Employees' Retirement System (TSERS)

- TSERS is the largest of NC's 10 retirement plans for state and local government employees
- General Assembly established TSERS in 1941 for the purpose of providing retirement benefits for state employees and teachers

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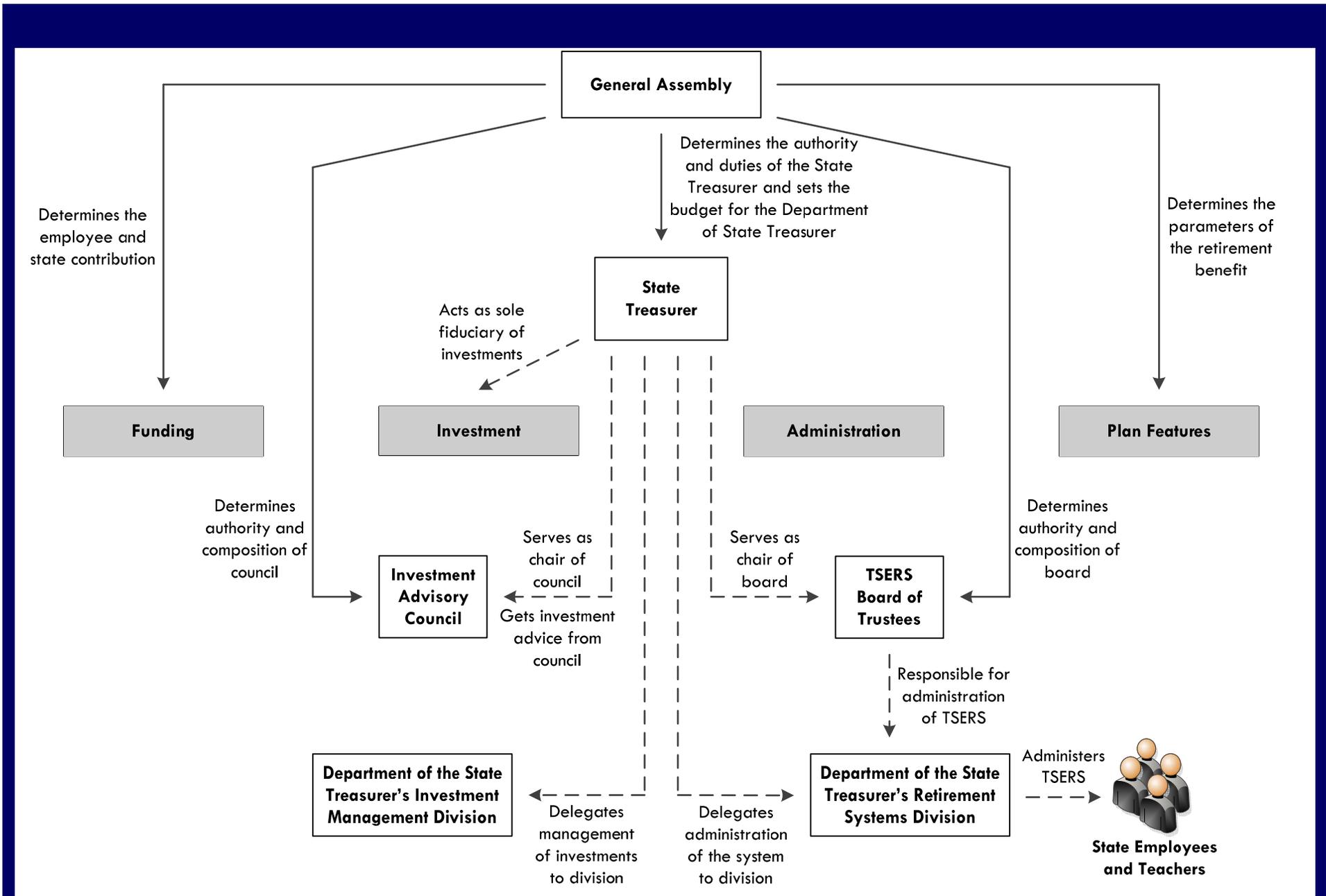


TSERS Oversight and Administration



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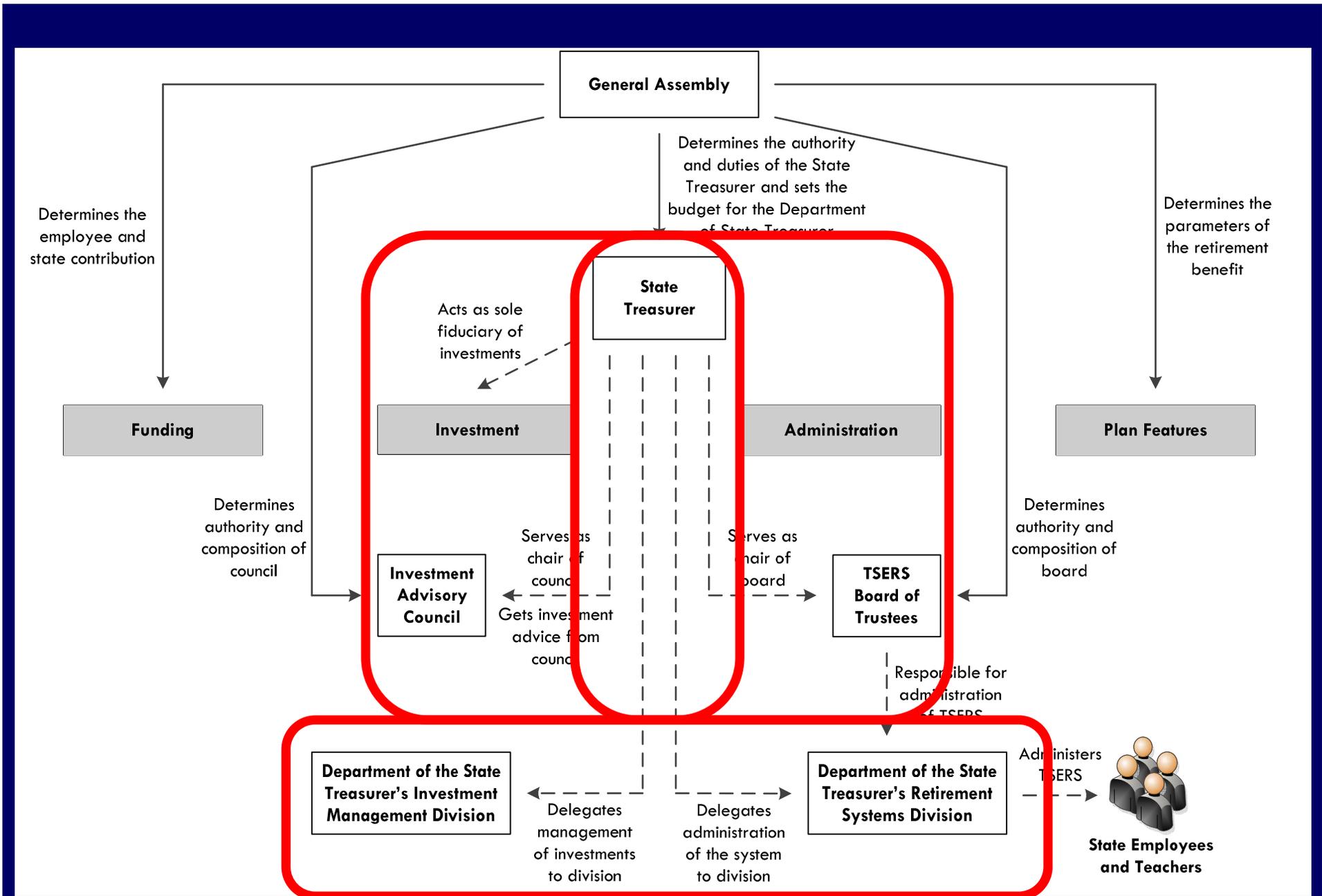


General Assembly Determines . . .

- Retirement plan features
- Employee and state contribution rates
- Authority and duties of the State Treasurer, Investment Advisory Council, and TSERS Board of Trustees

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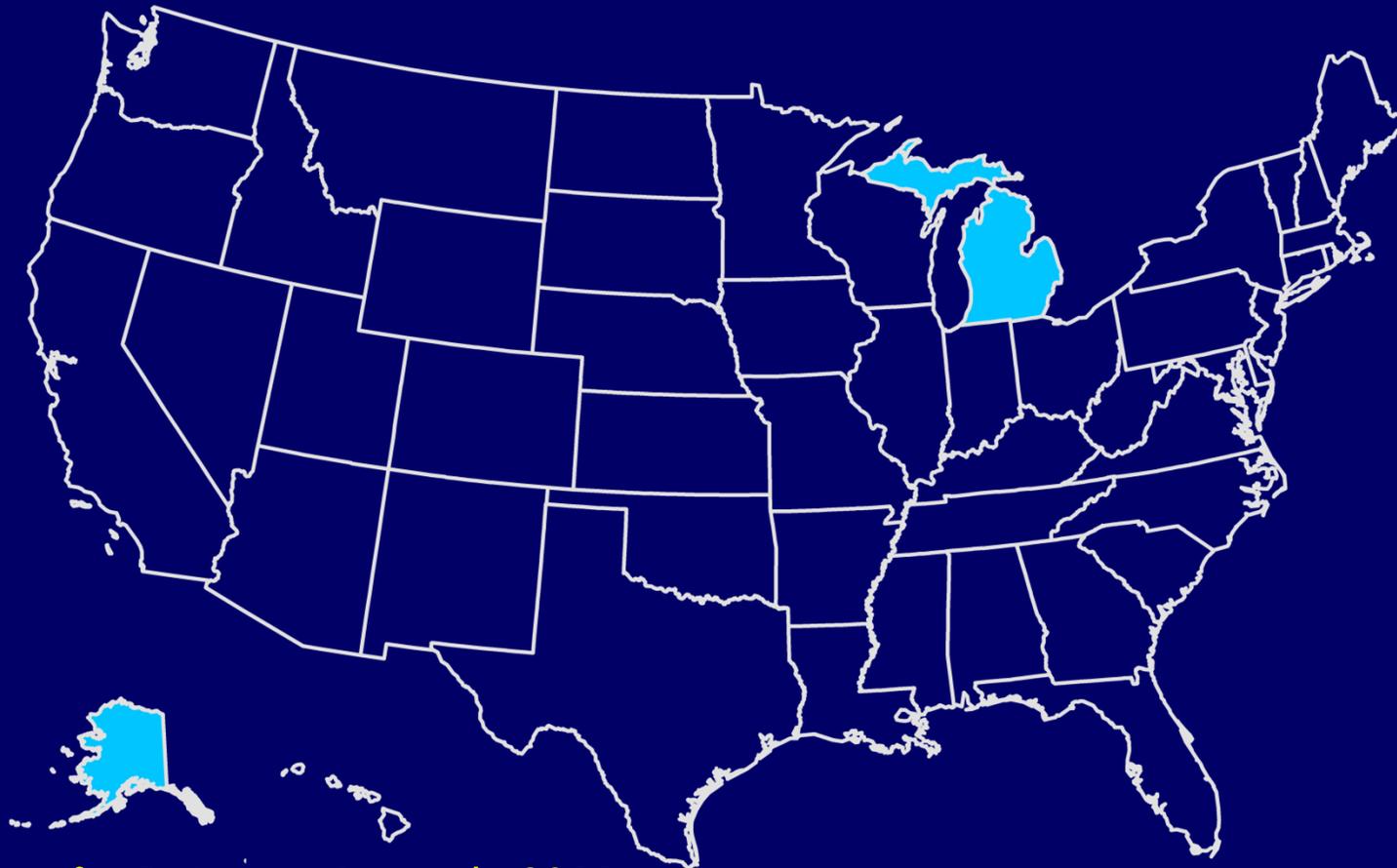


How TSERS Plan Design Compares



2 States Have Defined Contribution Plans

Benefits based on employee's account balance at time of retirement



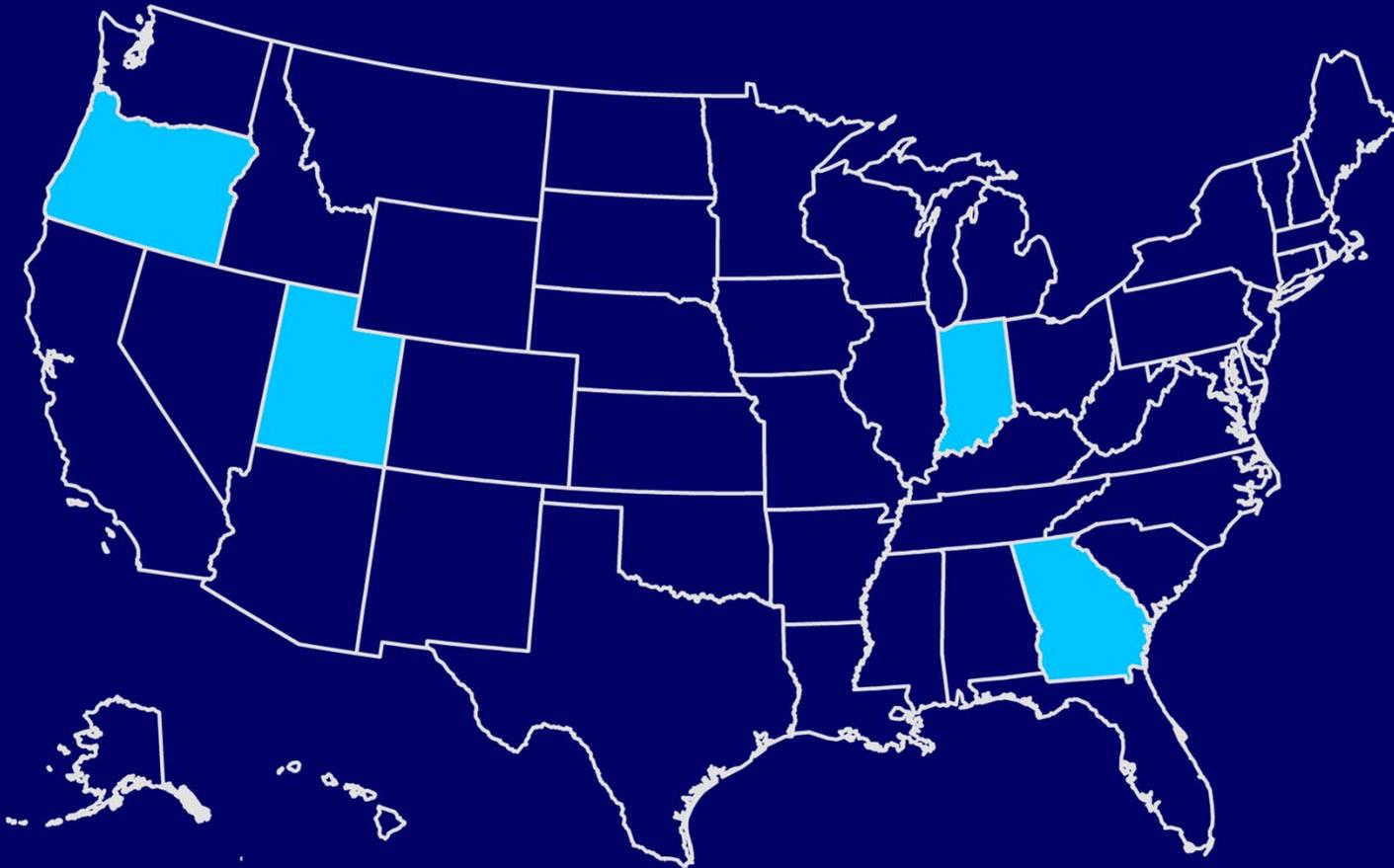
Source: Center for Retirement Research, 2011

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4 States Have Hybrid Plans

Employees participate in both plan types



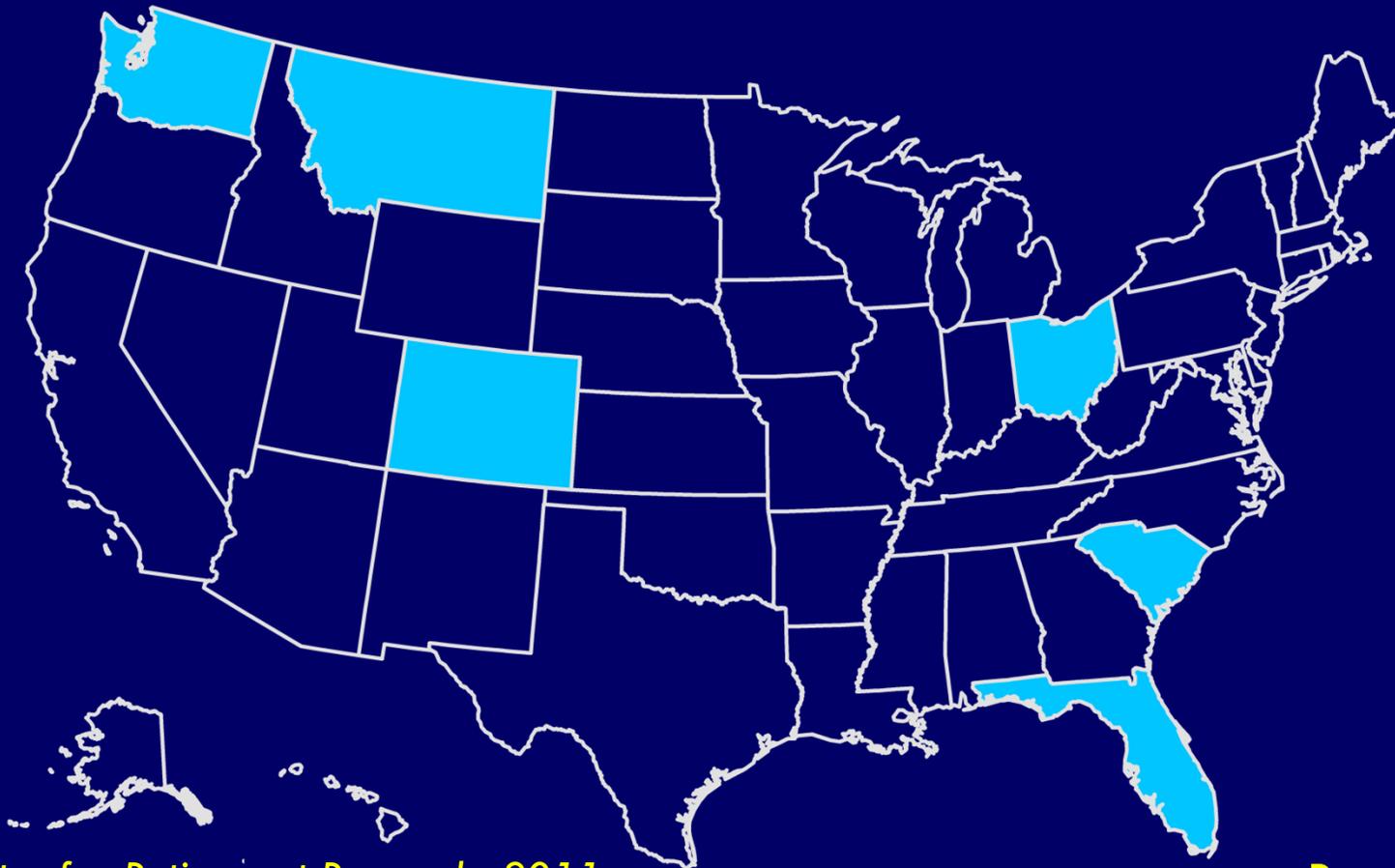
Source: Center for Retirement Research, 2011

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6 States Have Choice Plans

Employees choose between plan types



Source: Center for Retirement Research, 2011

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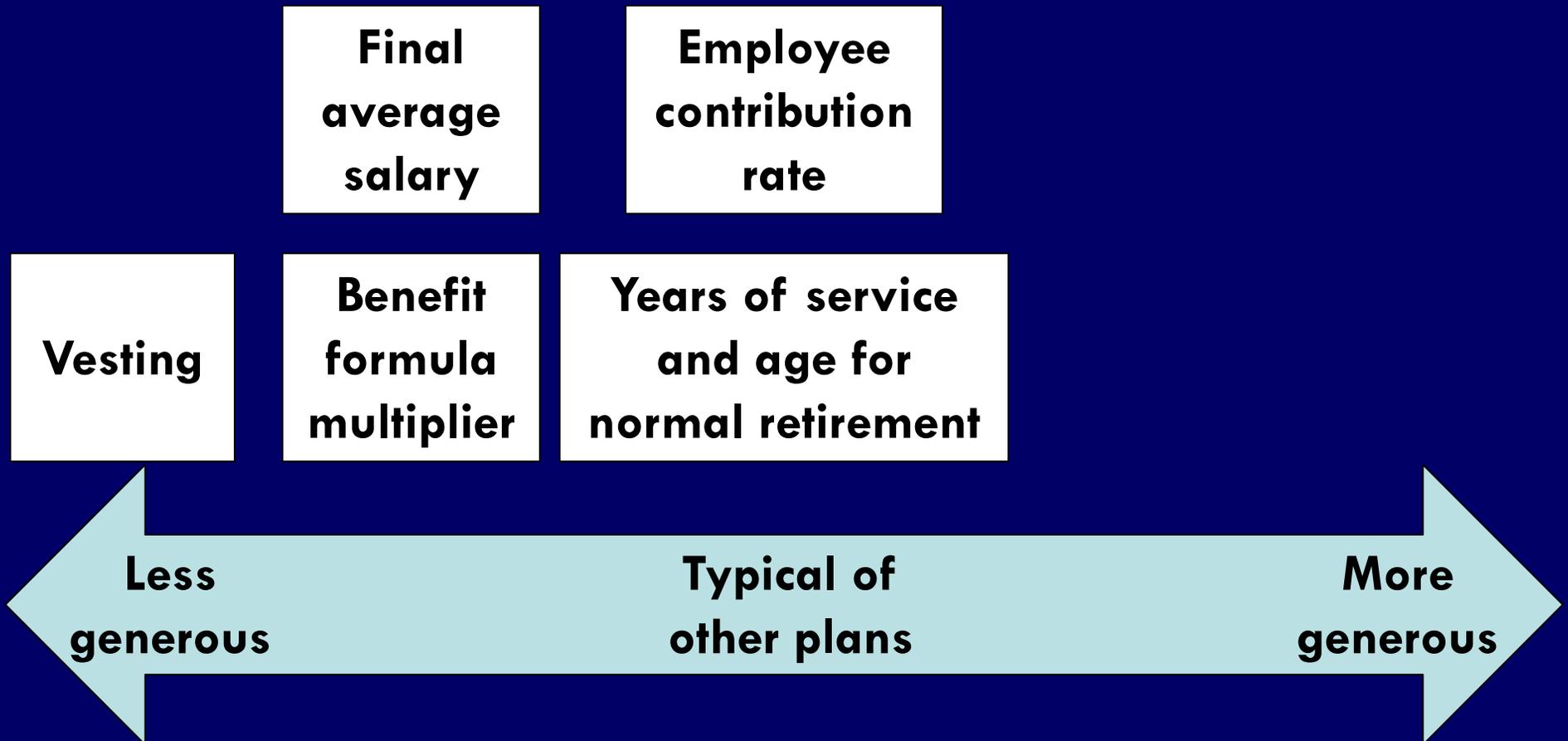
Majority of States Have Kept Their Defined Benefit Plans Because . . .

- States have to fund both the old defined benefit plan and any new defined contribution plan
- Defined contribution plans cost slightly more to operate on a daily basis
- Defined contribution plans may cost more to fund in the long run

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TSERS Plan Features Are Either Typical or Less Generous than Other State's Plans



Source: Wisconsin Legislative Council, 2008

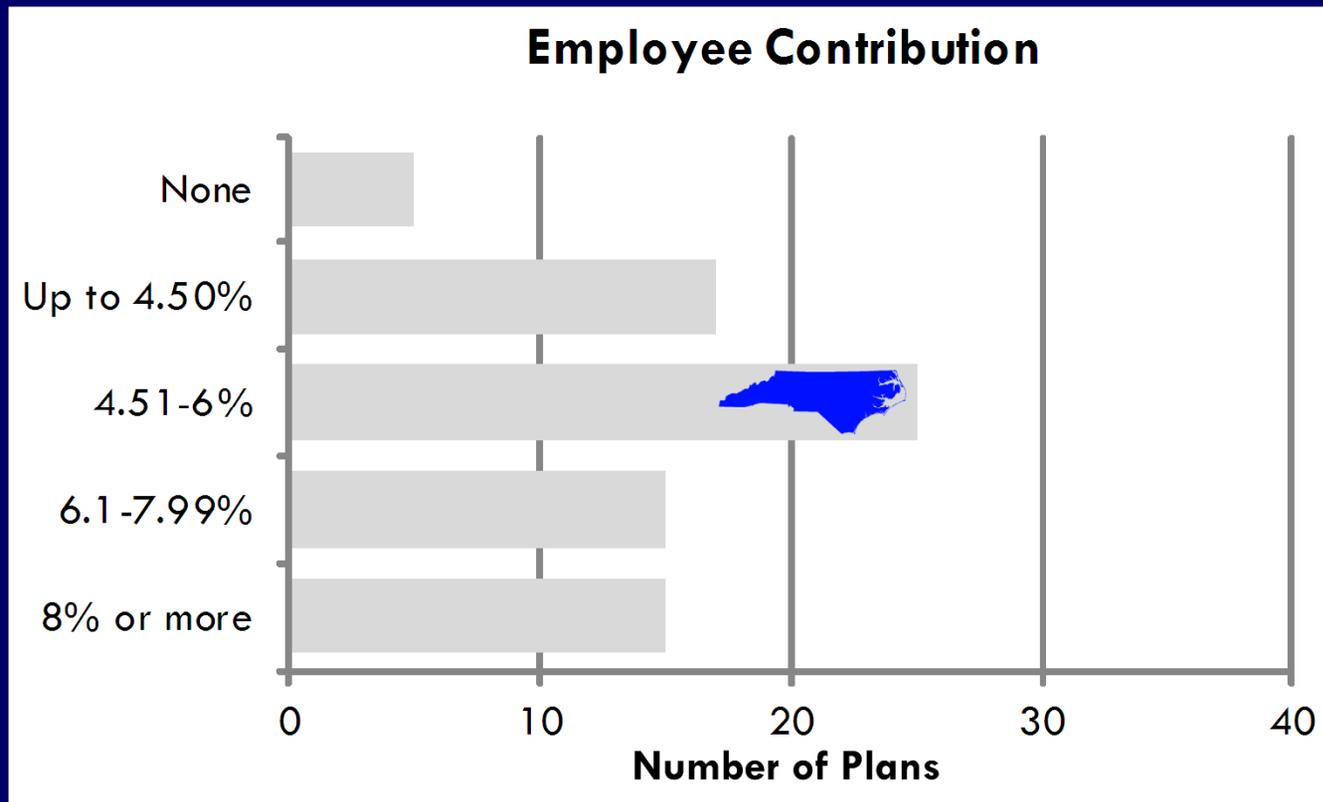
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TSERS Employee Contribution Rate is

Typical of Plans in Other States

State employees and teachers contribute 6% of their compensation to TSERS



Source: Wisconsin Legislative Council, 2008

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TSERS plan features are either typical or less generous than other state's plans

**Employee
contribution
rate**

Vesting

**Less
generous**

**Typical of
other plans**

**More
generous**

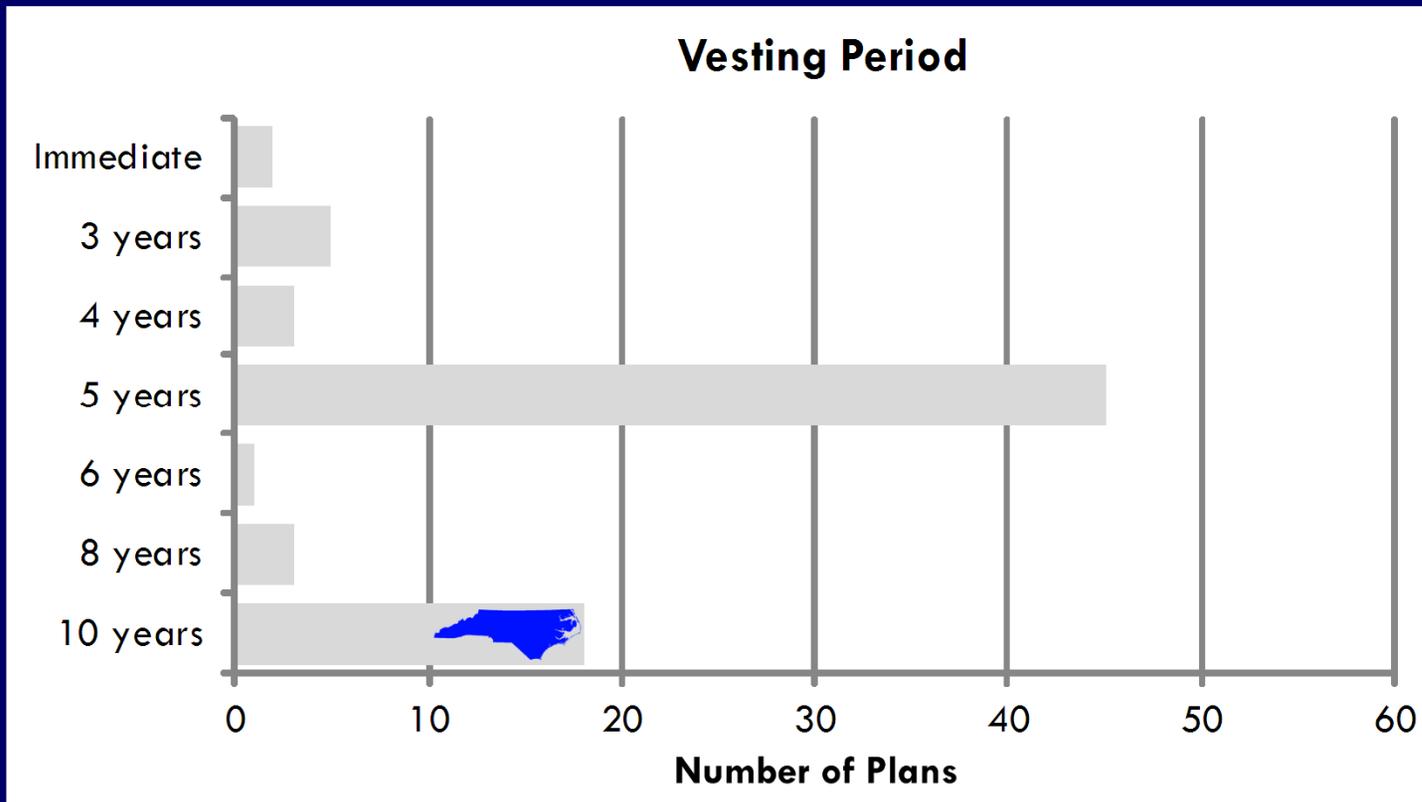
Source: Wisconsin Legislative Council, 2008

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TSERS Vesting Period is Less Generous Than Most Plans

State employees and teachers must have 10 years of service to receive benefits

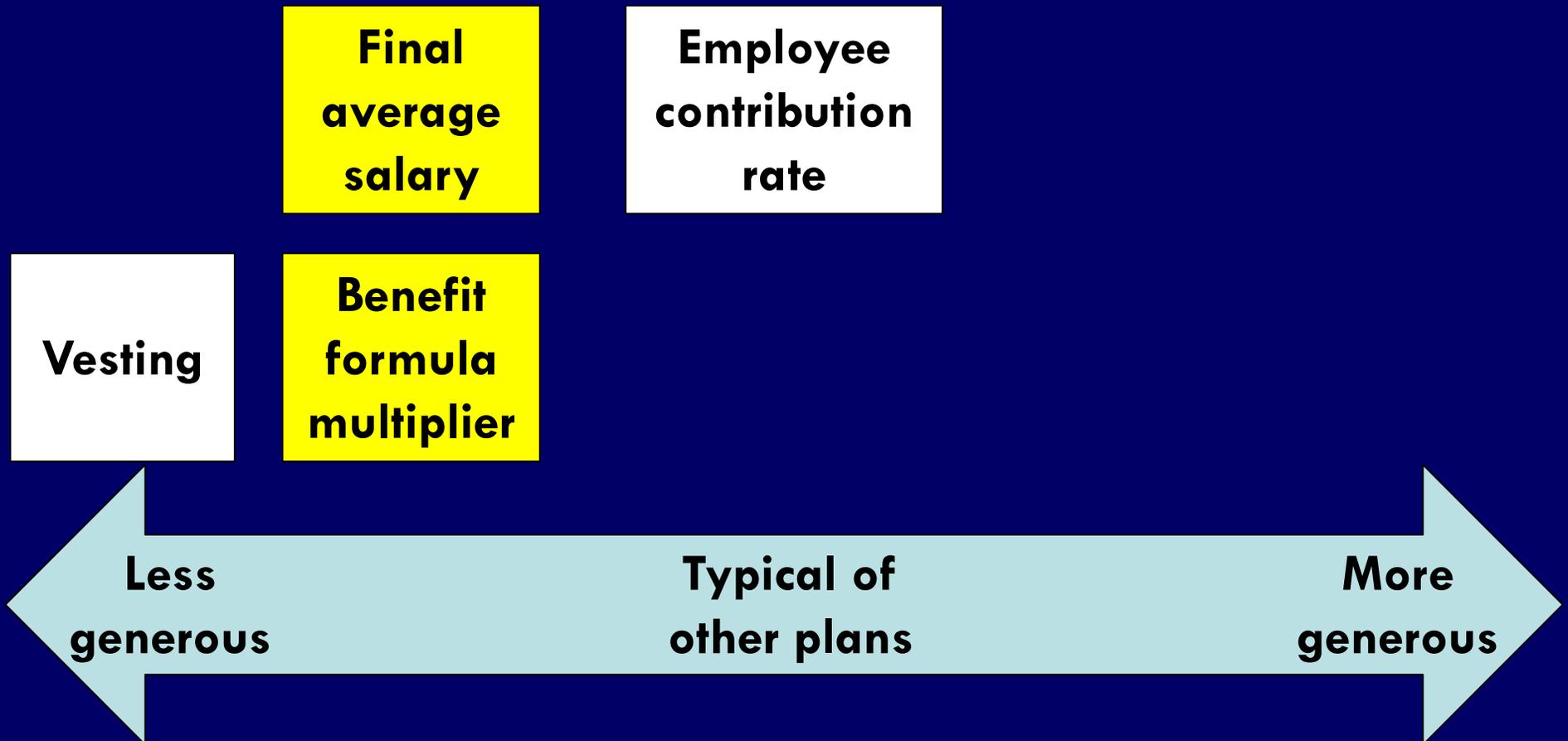


Source: Wisconsin Legislative Council, 2008

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TSERS plan features are either typical or less generous than other state's plans



Source: Wisconsin Legislative Council, 2008

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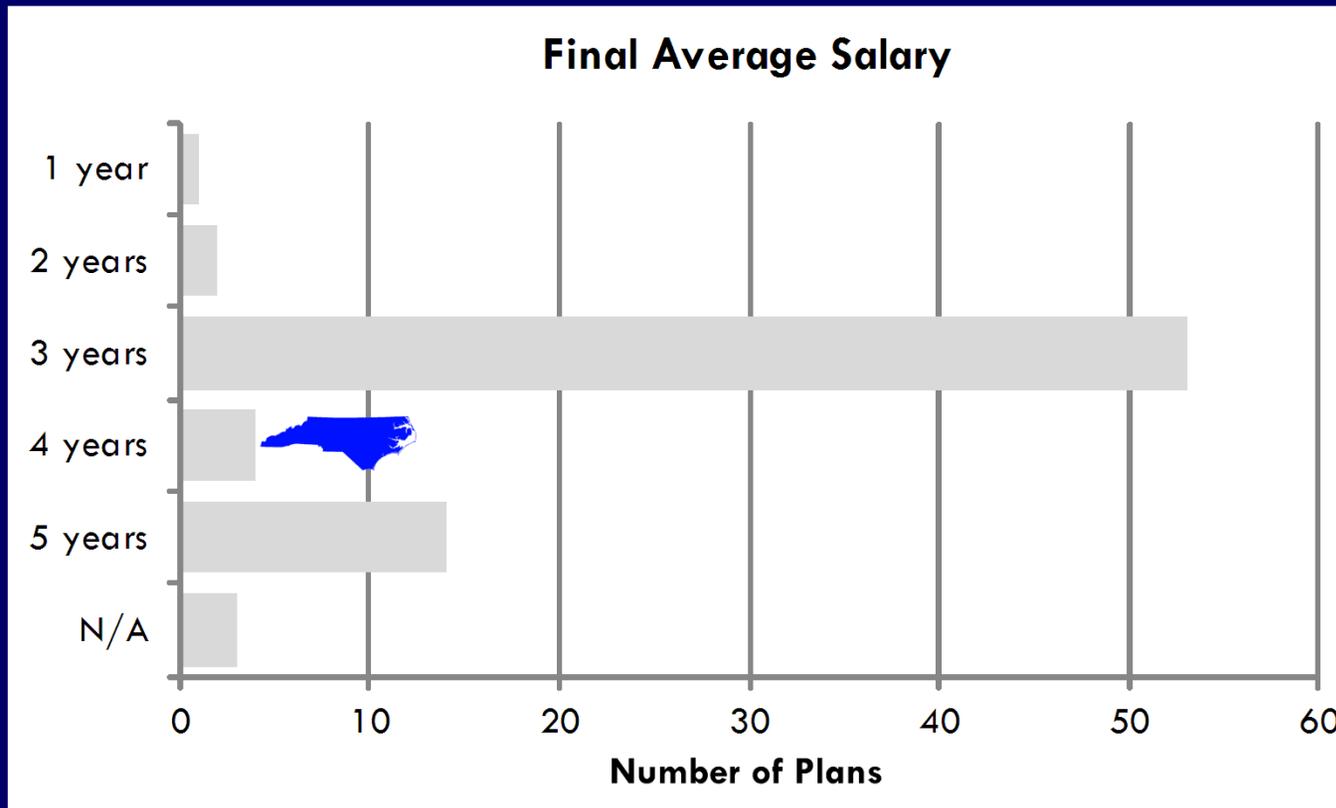
Defined Benefit Formula

$$\begin{array}{l} \text{Final average salary} \\ \times \text{Years of service} \\ \times \text{Multiplier} \\ \hline \text{Annual pension benefit} \end{array}$$



TSERS Final Average Salary Is Less Generous Than Most Plans

Final average salary is average of 4 highest-paid consecutive years



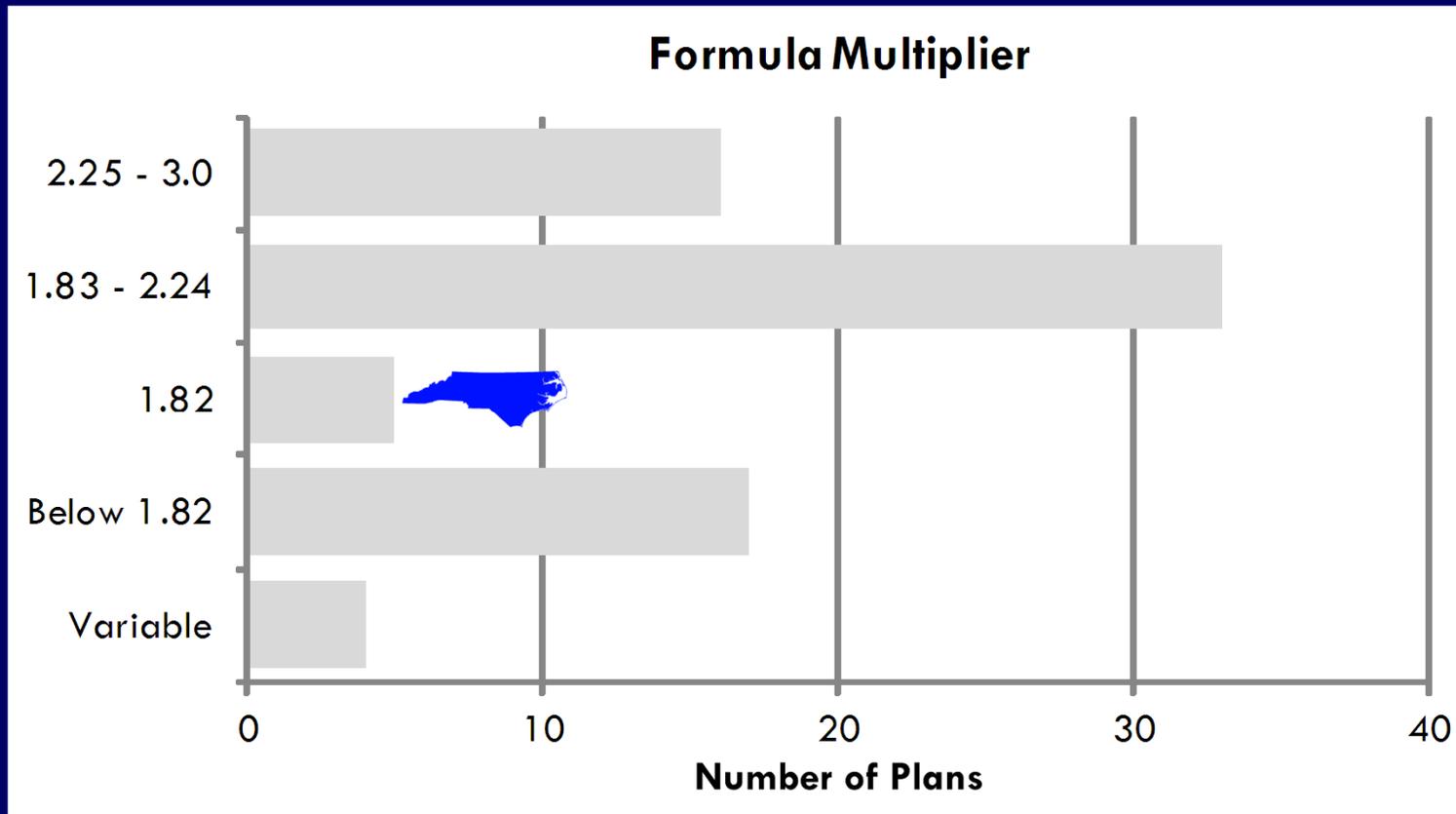
Source: Wisconsin Legislative Council, 2008

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TSERS Benefit Formula Multiplier Is Less Generous Than Most Plans

Benefit formula multiplier is 1.82%

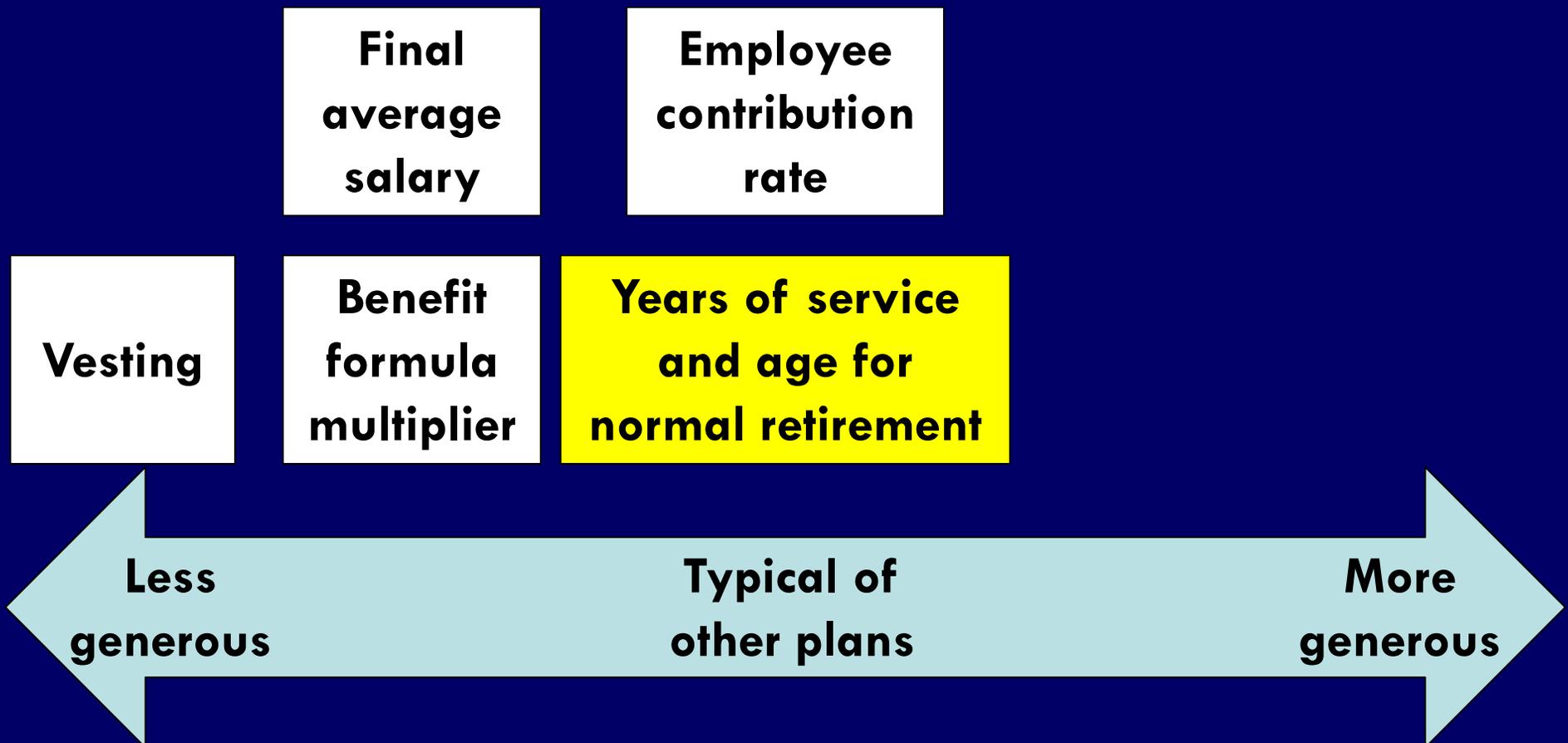


Source: Wisconsin Legislative Council, 2008

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TSERS plan features are either typical or less generous than other state's plans



Source: Wisconsin Legislative Council, 2008

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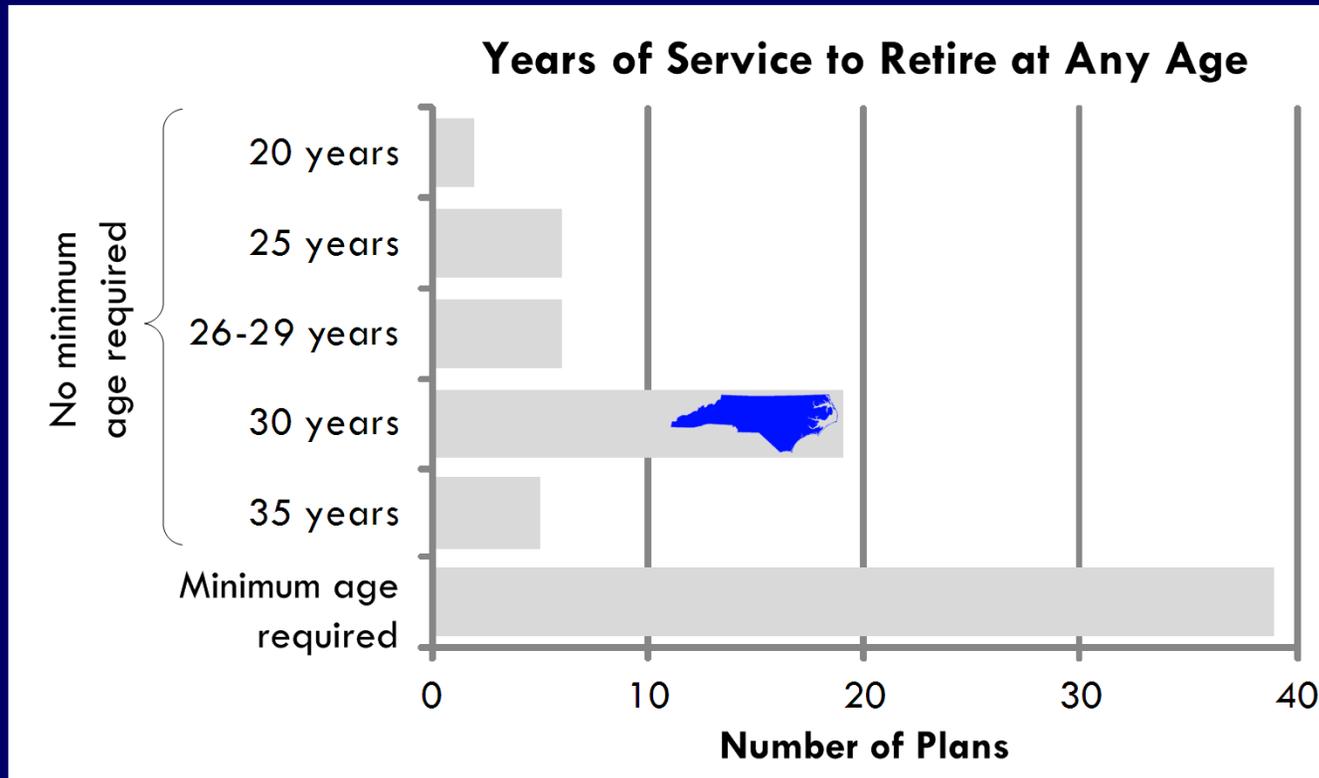
Normal Retirement

- Age and number of years of service that must be attained in order to qualify for unreduced benefits
- TSERS normal retirement combinations
 - any age with 30 years
 - age 60 with 25 years
 - age 65 with 10 years



TSERS Years of Service for Normal Retirement Is Typical of Other Plans

TSERS offers normal retirement, regardless of age, after 30 years of service



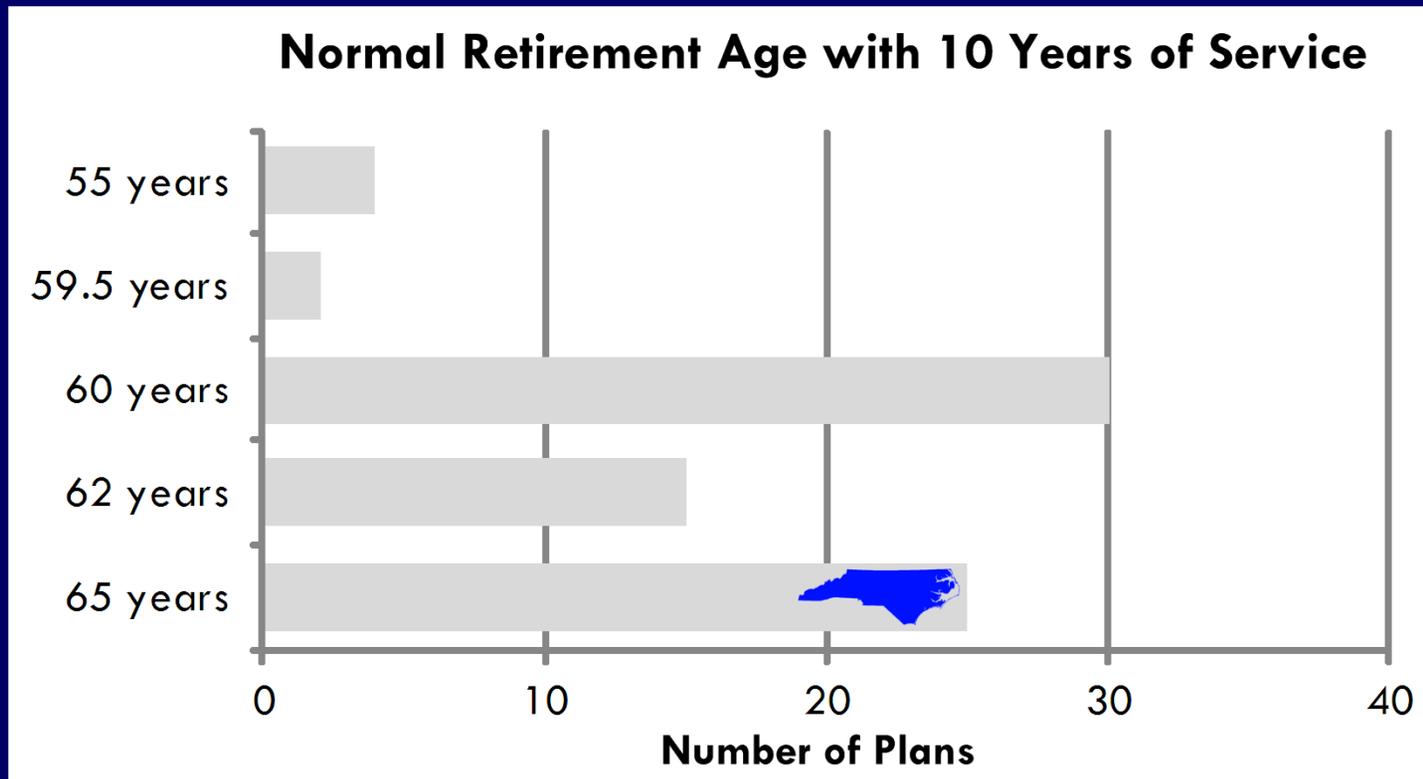
Source: Wisconsin Legislative Council, 2008

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TSERS Age for Normal Retirement Is Less Generous Than Other Plans

TSERS has a normal retirement age of 65 with 10 years of service



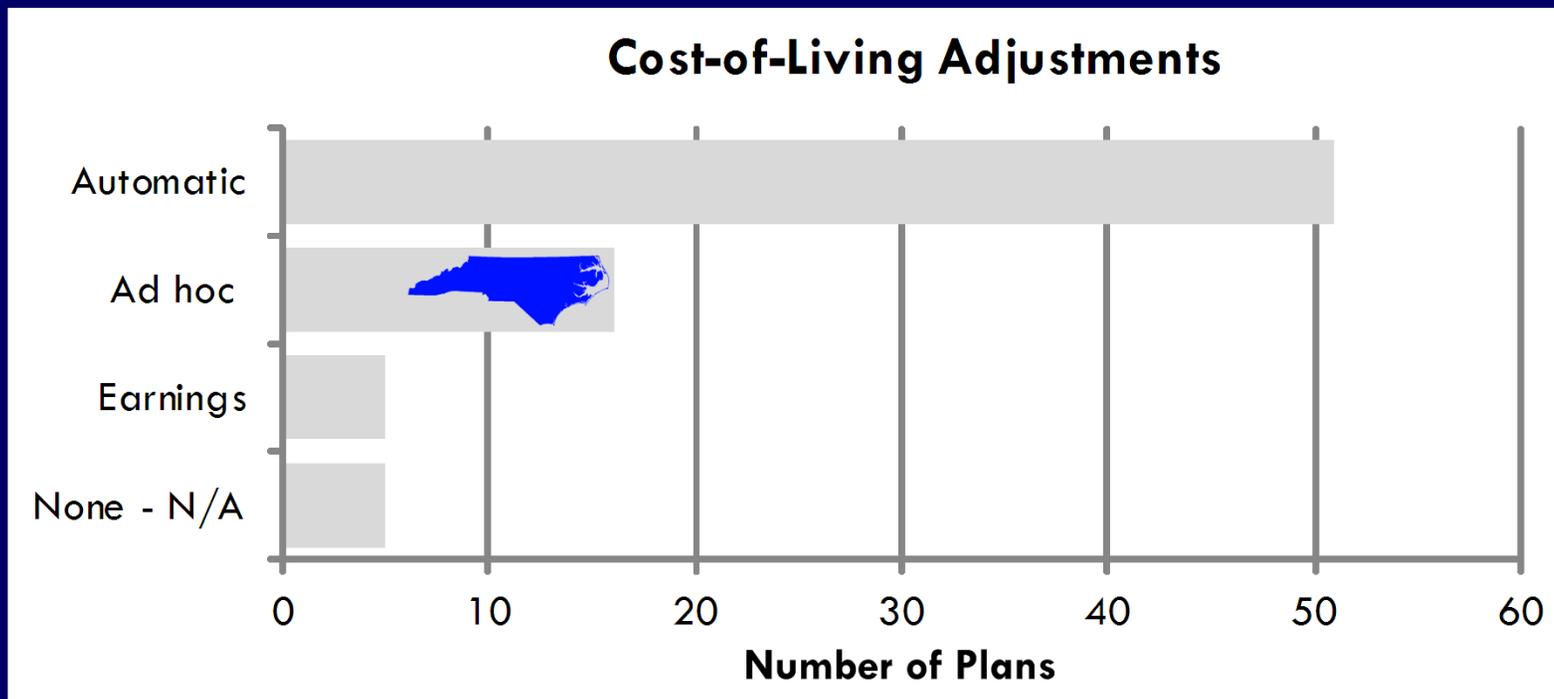
Source: Wisconsin Legislative Council, 2008

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TSERS Cost-of-Living Adjustments are Less Certain Than Other Plans

TSERS has cost-of-living increases on an *ad hoc* basis



Source: Wisconsin Legislative Council, 2008

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Majority of States Have Changed Plan Features

Cost-Saving Mechanism	Number of States
Increase employee contribution	29
Increase normal retirement age and/or service requirements	27 
Decrease final average salary	25
Decrease automatic cost-of-living adjustments	17
Increase number of years for vesting	14 
Decrease formula multiplier	13

Source: National Conference of State Legislatures, 2005 – June 2011

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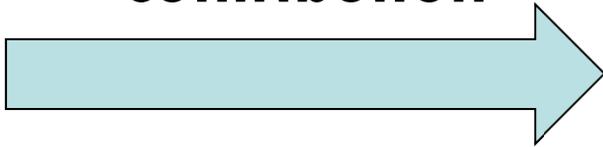


How TSERS Funding Compares



TSERS Funding

**Employee
contribution**



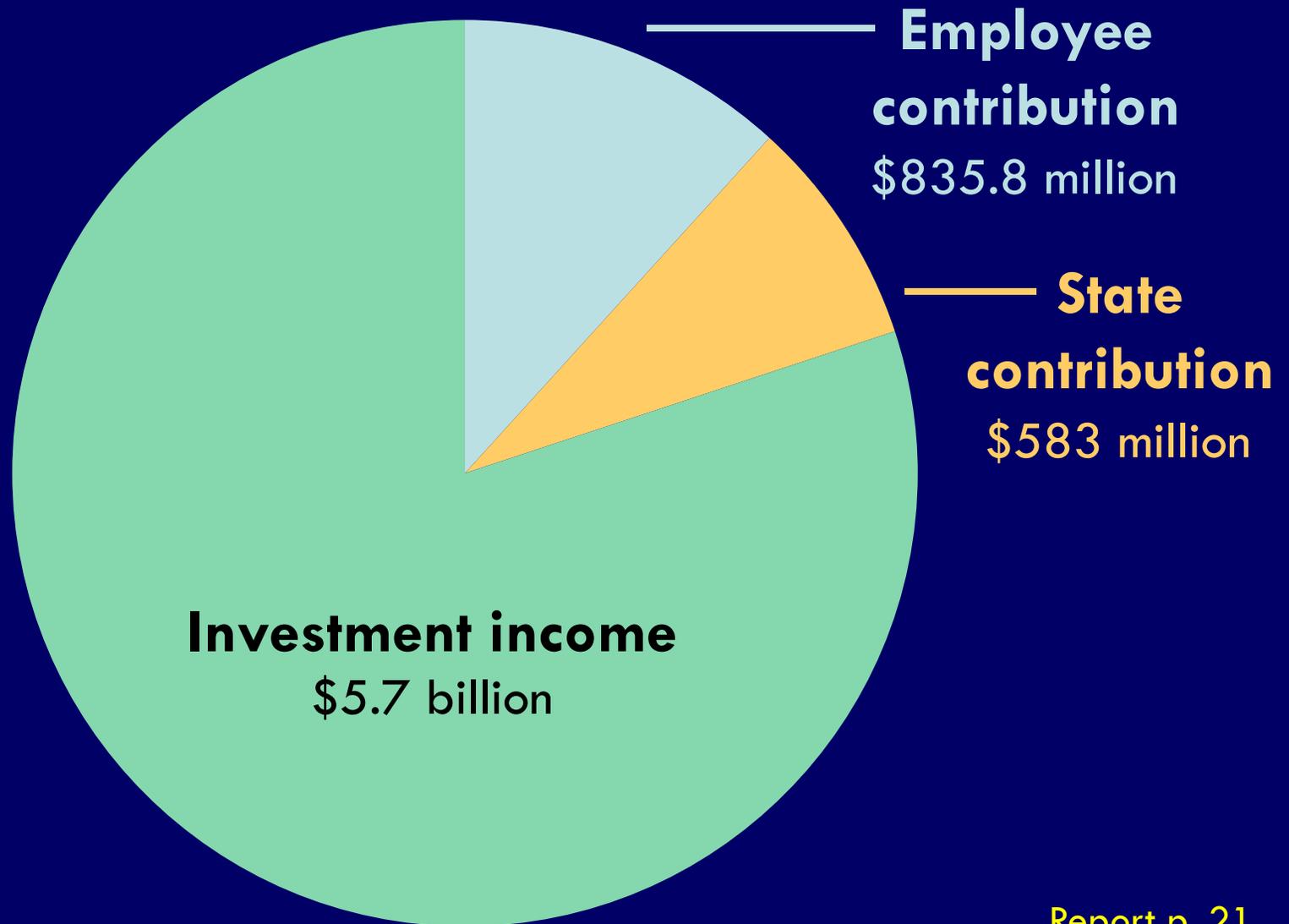
State contribution



Investment income



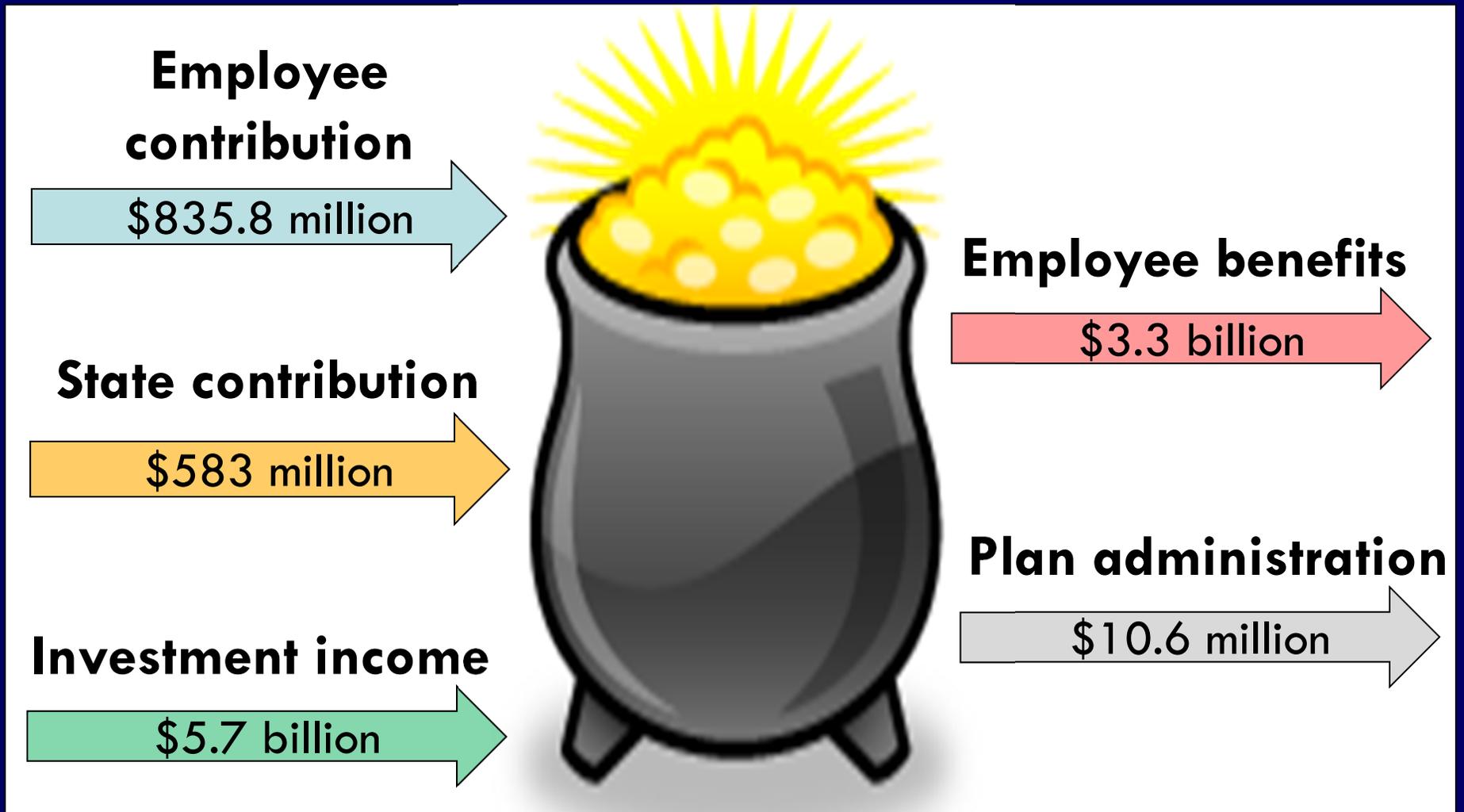
TSERS Funding in 2010



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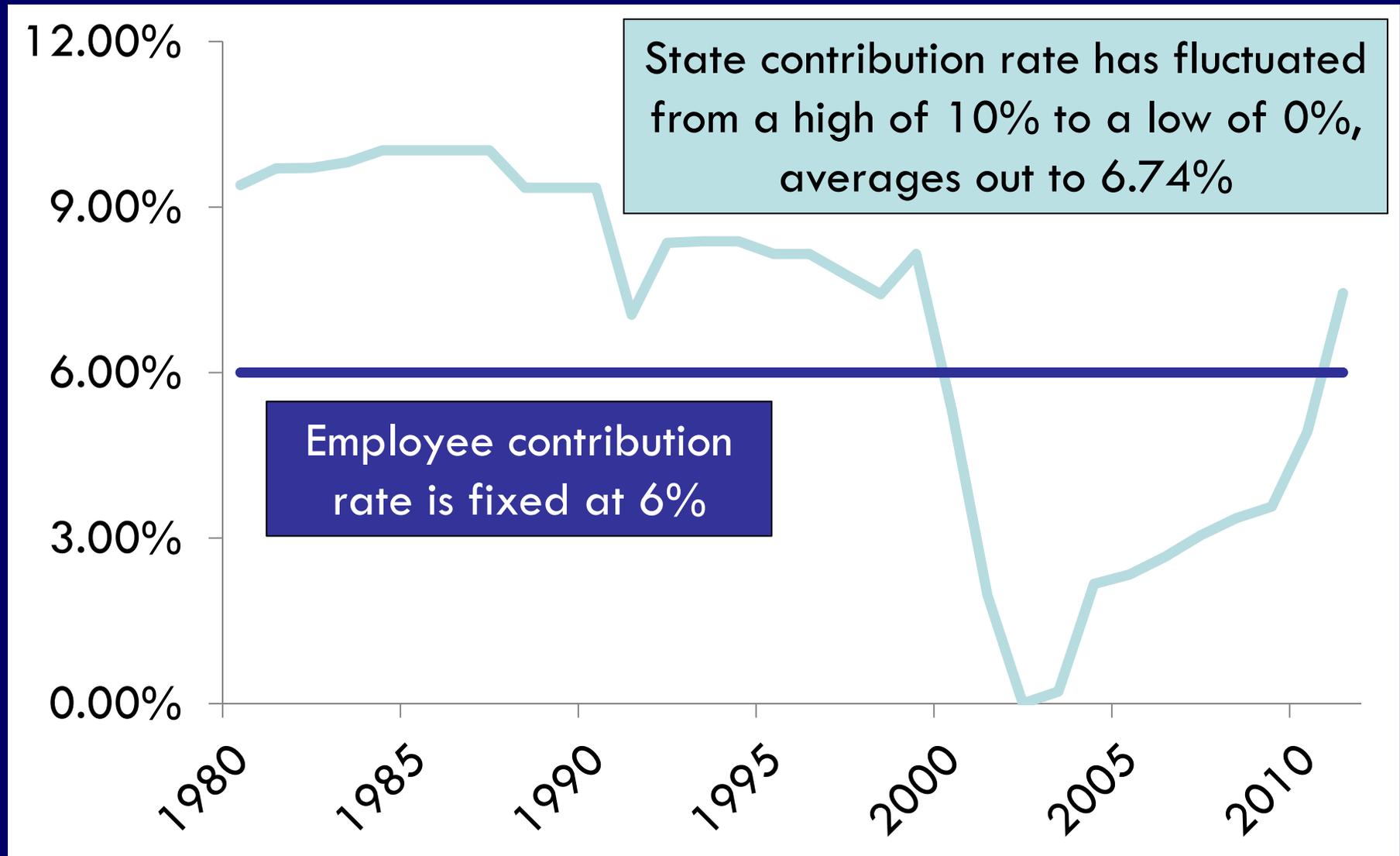


TSERS Funding in 2010



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Employee and State Contribution Rates



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3 Key Measures of Funding Status

$$\text{Funded ratio} = \frac{\text{assets}}{\text{liabilities}}$$

Indicates the extent to which a plan has enough funds set aside to pay for accrued benefits

Target = 100%
TSERS = 96%

Source: *Public Plans Database, 2009*

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3 Key Measures of Funding Status

Percentage of annual required contribution (ARC) paid

Indicates how much the state contribution covers the amount needed to fully fund benefits

Target = 100%

TSERS = 100%



3 Key Measures of Funding Status

Unfunded actuarial accrued liability as a percentage of covered payroll

$$= \frac{\text{assets} - \text{liability}}{\text{payroll}}$$

Indicates how big a burden paying off the plan's liability is relative to a state's budget

Target = 0%
TSERS = 18%

Source: *Public Plans Database, 2009*

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Funding Status of State Retirement Plans

Rank	Top 10 Plans
1	Washington Public Employee Retirement System 2/3
2	New York State Teachers' Retirement System
3	New York State & Local Employee Retirement System
4	Wisconsin Retirement System
5	Delaware State Employees' Pension Plan
6	NC Teachers' and State Employees' Retirement System
7	South Dakota Public Employee Retirement System
8	Tennessee Consolidated Retirement System
9	Florida Retirement System
10	Nebraska School Employees Retirement System

Source: *Public Plans Database, 2009*

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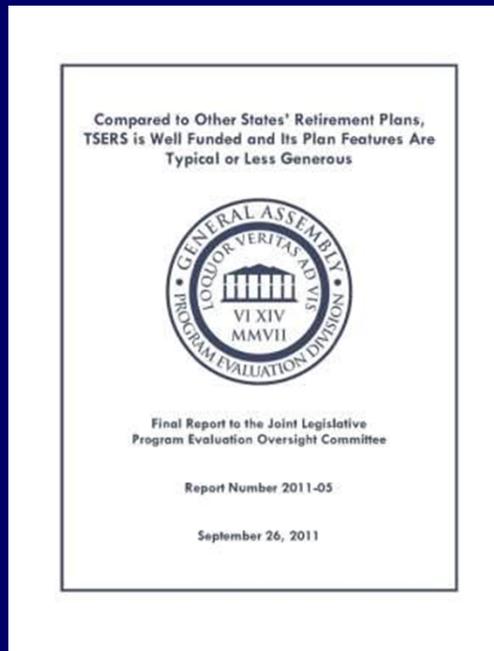


Treasurer's Response

State Treasurer agrees with the major conclusions of the report



**Report available online at
www.ncleg.net/PED/Reports/reports.html**



Kiernan McGorty

kiernan.mcgorty@ncleg.net