



July 2017

## Summary of 2017 Legislative Changes Affecting Retired School Personnel

The 2017 “long session” of the North Carolina General Assembly began January 25, 2017 and adjourned just over five months later, June 30, 2017. A primary responsibility of lawmakers was to craft a two year budget for the state. Amid early debate over House Bill 2 and later, tax reform, the legislature did find consensus in a \$23 billion budget. Their budget deal, Senate Bill 257, was sent to Governor Roy Cooper, who promptly vetoed it, stating not enough was done for education. The legislature quickly overrode the Governor’s veto and wrapped up the session. The legislature is scheduled to reconvene on August 3, 2017 for a special session to consider any veto overrides and bills that were in conference but not voted on during the regular session. Another special session is scheduled for September 6, 2017 where legislators will likely focus on legislative redistricting.

### **2017 STATE BUDGET ACT (Senate 257, 2017 Appropriations Act)**

#### **++ COLA and salary increases**

The budget conference committee report, which ultimately became the final budget bill, settled on a 1% “permanent” COLA for retirees of TSER, Judicial Retirement, and Legislative Systems.

**NOTE:** The Governor’s budget recommendation included a 1.5% one-time bonus for retirees. The Senate began the legislative budget process this year and recommended NO Cost of Living Adjustment (COLA) for retirees. The House rejected the Senate recommendation and proposed retirees receive a one- time 1.6% increase.

The Budget Act also provides a flat \$1000 salary increase for state employees plus 3 days of bonus vacation leave.

Teachers will receive an average 3.3% salary increase. Starting teachers will remain at \$35,000 and teachers with 17 to 24 years of experience will receive some of the biggest raises.

**++ Retirement Funding:** The budget provides full funding for the Annual Required Contribution (ARC) to the Teachers and State Employees Retirement System (TSERS)-- 10.78% contribution rate for TSERS for 2017-'18.

**++ State Health Plan (SHP) Funding:** The budget increases funding by 4% for 2018-'19, but this is 3% less (\$96 million) than the amount requested by the Treasurer’s office.

## ++OTHER BUDGET PROVISIONS:

### Study State Employee Total Compensation/Reduce Long-Term Unfunded Health Care Liabilities (Sec. 35.21.(a):

Establishes the State Employee Total Compensation Committee to study the total compensation of State employees including cash compensation and the value of health care, retirement, leave, and other benefits. The Committee is to also “evaluate the current financial condition and the sustainability of the State pension system” and submit a report with findings and recommendations to the General Assembly by February 2019. This section also eliminates *retiree* health care for persons hired on or after January 1, 2021---in other words, a person hired after January 1, 2021 as a teacher or state government employee will not be able to participate in the state health plan once they retire (some 20-30 years later).

## ++OTHER BILLS OF INTEREST

**HB 115 Retirement Technical Corrections Act of 2017** AB—Ratified-- this bill was requested by the State Treasurer’s Office and incorporates provisions that will clarify interpretations of current state law, conform statutes to governmental accounting standards, correct errors, and increase efficiency of administration— including such things as: *“Payout of vacation leave shall be included in “average final compensation” only if the payout is received by the member during the four consecutive calendar years of membership service producing the highest average annual compensation of the member.”*

**HB 176 Pensions Integrity Act of 2017** AB—Ratified—this bill was requested by the State Treasurer’s Office and focuses on fraud, waste and abuse detection and prevention—contains a number provisions that improve the anti-pension spiking law.

**HB 183 Retirement Administrative Changes Act of 2017**—AB—Ratified ---This bill was requested by the State Treasurer’s Office and incorporates provisions that will improve efficiency of retirement operations; prevent fraud, waste, and abuse; and increase transparency of governance statutes including such things as standardization of how employers report sick leave.

**H 299 State Health Plan Administrative Changes (S 218)**—AB—Ratified ---This bill was requested by the State Treasurer’s Office and incorporates provisions that will improve efficiency of the health plan operations such as a plan to terminate coverage when an individual knowingly and willfully provides false information during the enrollment process.

**HB 651 State Pensions/Retirement Health Benefit Fund Solvency**—*Did not pass*---- Would have established the Unfunded Liability Solvency Reserve fund and specified that funds in the Reserve could be used only for transfers to the Health Benefit Fund or the Retirement System for the purpose of reducing the unfunded liabilities of those two funds.

**SB 467 NC Retirement Reform**---*Did not pass*---Would require persons hired on or after July 1, 2018 to participate in the NC 401(K) or 457 Retirement Plan rather than the current Defined Benefit Plan and would end State Health Plan participation for those same persons, once they retire. (*NOTE: a provision in the final budget did include language that retiree health insurance would be eliminated for persons hired after July 1, 2021.*)

**HB 103 Equal Tax Treatment of Gov't Retirees** – *Did not pass* ---Would have gradually extended the vesting date for 'Bailey eligible' by extending the date by which State, local or federal government employees must be vested to receive the tax exclusion by three years each tax year until all the retirement income was deductible.

**HB 651 State Pension/Ret. Health Benefit Fund Solvency** – *Did not pass*--- Would have established the Unfunded Liability Solvency Reserve Fund to begin addressing the unfunded liability in the retirement and health plan funds.

**SB 389 Open Enrollment/Contributory Death Benefit** ---*Did not pass*--Would have allowed an 'open enrollment' for retirees to purchase the \$10,000 Contributory Death Benefit insurance policy offered now only within 60 days of retirement.

**SB 375 Limit Payroll Deduction/Wage Withholding**--- *Did not pass*—Would have eliminated payroll deduction of membership dues for 13 associations/organizations, including NCAE.

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