

Areas of Potential Concern and Possible Recommendations

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The following is a list of areas of potential concern and recommendations that could be used to address the concerns (if they exist). The list is presented to try to focus our attention on specific recommendations that we might want to consider. Thus far in our deliberations, we have reviewed considerable material describing the two retirement plans and have heard from state and local employers about the advantages and disadvantages of the current plan. The attached list identifies areas of concern that we have discussed. It is not intended to be all inclusive. Instead, I hope it will stimulate you thinking about how we can better utilize our time in our coming meetings to examine these and other areas. Also, the possible recommendations under each topic are presented as ideas to consider in our future discussions. I have tried to present these in an objective manner. Please remember that this is not a list of recommendations that I am currently advocating that we adopt but instead is a list of ideas for us to discuss, consider, evaluate and then accept or discard. I look forward to your thoughts and comments on these ideas.

- I. **Incentives in current retirement plans for career workers to retire in their 50s.**
Concern has been expressed by some about the early retirement incentives in the current plans. Methods of reducing the incentive to retire at the earliest ages possible are:
 - a. **Set minimum age for full benefits, even for those with 30 years of service.**
This could be done by having something like a rule of 85 or a rule of 90 or by setting a minimum age of say 58.
 - b. **Increase reductions for starting benefits prior to normal retirement age.**
 - c. **Increase generosity parameter (multiplier) for years of service in excess of 30; e.g. 2.0 percent per year for each year over 30 years of service.**
 - d. **Raise normal retirements ages.** 65 with 25 years of service, 68 with 5 years of service. Another option is to tie the normal retirement age to the normal retirement age for Social Security benefits.

(I have not heard anyone suggest having earlier retirement ages so I have not listed recommendations to lower the age of retirement.)
- II. **Reduce impact of large increases in salary in final working years.**
 - a. **An anti-spiking rule.** This would limit the increases in salary in the final working years that would count toward the FAS.
 - b. **Increase the number of years in FAS**
- III. **Better treatment for short career employees.**
 - a. **Terminating workers who are not vested would be paid their contributions plus interest.**

- b. Terminating workers who are vested would be paid their contributions plus an employer contribution plus interest**
- c. Allow a defined contribution option for newly hired workers with a buy-in to the defined benefit plan when vested.**

IV. Vesting standard

- a. Is it too high, lower years required for vesting.**
- b. Is it too low, increase years required for vesting.**

I am not sure what area of concern this would address, but it does affect the treatment of short career workers.

V. Increases in benefits to retirees

- a. Make COLA automatic**
- b. Specify amount of increase, e.g. link to change in CPI with cap**

VI. Retirement benefits are too low. In general, the generosity parameter for the NC pensions is below the average for the US but similar to many of our neighboring states. Representatives of UNC expressed a strong sentiment that in the academic world, our retirement benefits were not competitive. Are there other areas of state employment where this is true?

- a. Increase generosity parameter**
- b. Increase employer contributions to ORP**

Of course, if one is concerned about the cost of the retirement plans, the discussion could focus on reducing the generosity of the plans. However, the labor market effects of such a change should be carefully considered.

VII. Supplemental retirement plans. Are state and local government employees in NC saving enough? If not, should the state encourage employees to save more?

- a. Establish automatic enrollment**
- b. Provide employer match**