



North Carolina Future of Retirement Study Commission

Remarks Presented By: Sheri Strickland,

President of the North Carolina Association of Educators (NCAE)

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Treasurer Cowell, Retirement System Director, Michael Williamson, Commission Chairman Clark, legislators, Commission members, colleagues representing various associations with membership in the Retirement Systems, visitors and guests, I am proud to stand before you to make a few remarks on behalf of NCAE and its 65,000 educators statewide – including active personnel, retirees, and students studying to enter the teaching profession. Educators are very appreciative of the benefits this great state provides its employees. Many educators, specifically teachers, understand that when they enter the profession, they are not entering a field or work that pays competitive salaries with other states or other professions. However, many understand that below-market public school salaries are balanced with what educators consider a comprehensive benefits package including state retirement, health insurance, longevity pay, and other benefits that are invaluable in enhancing the total compensation package. NCAE and its members appreciate the comprehensive work undertaken by the Commission over the past five months. The topics covered have been extensive, exhaustive and comprehensive. We are also grateful that you allowed a certified public school teacher, our NCAE representative, to be a part of the work of this Commission.

We understand that when the Commission was created in October, 2009, by the Retirement Trustee Board to study the future of the Retirement System, a major goal was to comprehensively review the current retirement systems in totality, aiming to determine whether the current systems meet the needs of both public sector employees and employers. Additionally, the Commission was to be proactive in responding to a growing national debate on pension plans. The Commission has taken a data-driven approach in studying and researching issues prior to making any recommendations for change and improvements. NCAE applauds the Commission as you continue working monthly towards your final recommendations in a comprehensive report to be presented to the Retirement Board of Trustees in November, 2010. We are thankful that you are allowing each organization with membership in the Retirement Systems to share their concerns and issues with you prior to implementing any changes that have not been discussed fully by all parties affected.

NCAE believes the current Retirement System has served this state and its employees well. We are, however, concerned about the future of the pension plan. Pam Deardorff, Executive Director of our Retired Division, will share those concerns with you shortly. There are a few other concerns we would like the Commission to address:

- Maintain the current Defined Benefit Plan that guarantees a pension benefit for life upon retirement. NCAE is adamantly opposed to changing the plan to a Defined Contribution Plan or any hybrid combination of the two. Research supports the strength and stability of the Defined Benefit Plan.
- Increase the accrual rate in the Teachers' and State Employees' Retirement System from 1.82 to the 1.85, the rate paid in the Local Government Retirement System. This not only corrects an inequity, but enhances future pension benefits. Additionally, it provides an increase in pension benefits to current retirees, who have lost purchasing power during most of the past

decade, as their retirement pensions have lagged behind inflation. The current accrual formula has increased only once in the past nine years.

- Review the option of allowing teachers to be retired and reemployed without jeopardizing their retirement pension. This provision could be restricted to address shortages in areas of critical needs, or select geographic locations, or in hard to staff schools. We understand and support fully that a break in service beyond the summer break would be required, and offer this as a suggestion for school districts who meet the criteria.
- Educate employees on the importance of saving to supplement retirement. Encourage young employees to investigate the various supplemental retirement plans available, and within their means, start saving during their employment years, so adequate income is available to meet their future retirement needs.
- Address incentives that might be offered by the state to encourage employees to continue employment beyond 30 years of service. The state could consider increasing the retirement accrual formula for each year an employee's creditable retirement service is greater than 30. Additionally, the state could increase the longevity rate for service to the state beyond 30.
- Increase the Employer Contribution Rate to equal, at minimum, the 6 percent paid by employees. We implore the Commission to ensure that this system remains fully funded and actuarially sound, so adequate funds are available to not only pay retiree pensions, but also to provide Cost-of-Living-Adjustments (COLAs) that adjust pension benefits for inflation.

In summary, North Carolina will continue to need valued employees in the workforce, with projections showing a need for approximately 11,000 new teachers each year until 2014. Retirement is listed as one of the top five benefits that employees consider when making employment decisions. With the need for so many additional educators, how will the state attract them when highly valued benefits such as retirement are dwindling? There is still a shortage of teachers. With the baby boomers approaching retirement age, the shortage will increase tremendously if we are not able to attract students into the education field. NCAE believes this state is committed to attracting the best and brightest employees to public service and our public schools, a goal we share with you. How will the state attract the best and brightest into public service if we have poor salaries and weakened benefits? Unless there is continued improvement and enhancement of benefits, along with salaries, there will be a continued exodus by many of our veteran employees of both the state and public schools.

NCAE remains committed to working with you through our representative on the Commission. We share with you a goal of comprehensively reviewing the system in totality to determine whether the system meets the needs of both public sector employees and employers, but caution you to not make any radical changes to a system that has served its employees well.

Should you have any questions, please do not hesitate to contact me, and thank you for this again for this opportunity to share insight and concerns on behalf of North Carolina's educators.