Presentation to the Future of Retirement Study Commission
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Monday, June 14, 2010

Introduction

Our Association currently represents slightly more than 54,000 retired state and local government employees. We understand that the primary mission of this Commission is to recommend what needs to be done to keep our public retirement systems relevant to the future public work force. As a result, only a portion of what you recommend likely will have an impact on people who already are retired or on active employees who are vested.

However, we thought it appropriate that we, as beneficiaries of one of the best public pension systems in the country, share a few observations about several of the issues you have discussed thus far, especially changes in our systems that could affect current retirees. Also, we wish to offer suggestions on an issue that has been referred to this Commission but has not yet been discussed, namely; changes to the statutes governing Cost-Of-Living Adjustments (COLAS) in the Local Governmental Employees' Retirement System.

General Observations

1.) Our retirement systems are only one of several tools available to state and local government employers to recruit, retain, and reward employees. Changes to the retirement systems might not be as effective as other benefit options, such as salary incentives and enhanced health insurance coverage, in addressing senior employee retention, recruitment of special skill employees, etc..
2.) The core services of state and local governments, education, public health, and human services, benefit from a stable, career oriented, and experienced workforce. The current state and local government defined benefit retirement systems encourage career service among the vast majority of governmental employees which, in turn, contributes to the delivery of quality services to the public.

Specific Issues

1.) Retirement Age

The Commission has discussed the fact that our systems permit full service retirement at 30 years of service regardless of age. Other states are considering the addition of a "normal" retirement age for full service retirement, akin to the Social

Security full retirement age (65 years). Also, legislation was introduced last month in the North Carolina General Assembly to set age 60 as normal retirement age for the members of the Teachers' and State Employees' Retirement System hired on or after January 1, 2011.

We urge the Commission to proceed with caution when considering a minimum or normal retirement age that would apply to all classes of employees. The discussion of this issue should include consideration of incentives for longer years of service, such as a higher accrual rate for employees who work beyond 30 years of service. Also, non-pension alternatives, such as salary incentives to retain senior employees should be considered.

2.) Indexing Pension Benefits

A number of other states provide some form of indexed increases in pension payments that seek to offset the effects of inflation on retirement income. Historically, the Board of Trustees of the Retirement Systems has approved COLAs for state and local retirees using the most recent annual rate of change in the Consumer Price Index as a guide within the limitations of gains available in the retirement systems. Since 2000, the General Assembly has provided additional appropriations in several years to augment gains in the TSERS and to move the annual COLAs closer to the actual rate of inflation.

We ask that the Commission support annual indexing of pension benefits to keep pace with inflation. We understand that linking increases in pension benefits to changes in the cost of living will require higher contribution rates. Indexing could be phased in over several years to allow additional costs to be absorbed gradually.

3.) Broader Application of the Optional Retirement Program

The possibility was discussed at an earlier meeting of giving a broader range of state employees the choice of joining either the Teachers' and State Employees' Retirement System or a defined contribution pension plan similar to the existing Optional Retirement Plan that is available to University and Community College employees. Such an option, coupled with salary incentives, might be helpful in the recruitment of certain continuously scarce and specialized personnel.

However, we believe that opening an optional retirement program to all employees runs counter to the public interest in retention of employees engaged in the provision of the core public services. Our current retirement system puts a premium on career service rather than mobility. Any expansion of the optional retirement program should be carefully targeted.

The Local Governmental Employees' Retirement System (LGERS) Law

The Board of Trustees of the Retirement Systems in January referred the issue of modifying the statutes governing the LGERS to the Future of Retirement Study Commission. Specifically, the Board requested that the Commission review the statutory language authorizing the Board to approved Cost-Of-Living Adjustments for local government retirees that was subject to a recent Attorney General's opinion and recommend appropriate changes to the law.

In 2009, the Attorney General's staff issued an informal advisory opinion that G.S. 128-27(k) strictly limited the Board's authority to grant COLAs. The opinion stated that the statute required the Board to grant COLAs equal to the change in the Consumer Price Index (CPI) during the most recent calendar year subject to the availability of investment gains to cover the cost of the COLA. Prior to the issuance of this opinion, the Board had operated as if the statute allowed discretion with regard to the amount of any COLAs granted to local retirees.

In 2009, the LGERS had sufficient investment gains to pay as much as a 3.2% COLA. However, the increase in the CPI during the preceding year was only 0.1%. As a result of the advisory opinion, the Board was able to approve only a 0.1% COLA for local retirees.

When the Commission takes up this issue and has had an opportunity to review options for changes to the law we ask that you consider the following:

1.) maintain a statutory requirement that annual COLAs are equal to the change in the Consumer Price Index.
2.) clarify the discretionary authority the Board of Trustees to grant COLAs that exceed the CPI in years when investment gains and other revenues are sufficient to address shortfalls in previous years.