PROFESSIONAL FIRE FIGHTERS and PARAMEDICS OF NORTH CAROLINA
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THE FUTURE of RETIREMENT STUDY COMMISSION
Presentation by: David R. Anders
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Mr. Chairman and members of the Commission:

I would first like to thank you for your willingness to serve on the Commission and for the opportunity to speak to you today and give you our suggestions for the future of the Local Government Employees Retirement System.

We would discourage this Commission from making recommendations that could have a negative effect on retirement benefits for the future but rather to recommend that adequate funding be made into the Retirement System to prevent benefits from slipping backwards. If benefits do not keep up with inflation, some retirees will fall behind in their ability to live out their retirement years with some measure of dignity. As you are aware, the increases in the cost of living for retirees in LGERS have not kept up with inflation for some time.

We are not in favor of the option given to the Commission of scraping the Defined Benefits Plan and going to a Defined Contribution Plan and we are not in favor of the Hybrid Plan of reducing the Defined Benefits and making the Defined Contribution plan mandatory. We believe that this would be too risky for most employees and possibly weaken the retirement for all employees. Neither of these options would provide the long term benefits retirees now enjoy. We prefer the current LGERS plan while making contributions on a voluntary basis into our 401(k) or 457. We would encourage the Commission to recommend funding LGERS at a level that will allow yearly increases to keep up with inflation and assist planning for long term increases in the multiplier.

In addition to the other groups of public employees, we have a special reason for asking that retirement benefits keep up with the cost of living. While the Charlotte Firefighters are not members of LGERS, close to thirty percent of the career firefighters in the state do not pay into Social Security. If retirement benefits decline, these retirees suffer more than most.

In the past, the uninformed have said that firefighters just made a poor decision to opt out of Social Security. It is worth noting that firefighters working today were not born at the time these decisions were made and the firefighters working at that time were not given a voice in the decision. In any event, at the age other public employees begin receiving Social Security many firefighters receive very little or none.

Again, some uninformed people have taken an opposing view point and stated that most firefighters have side jobs and therefore will be able to draw Social Security. While some firefighters work on the side, the Windfall provision within Social Security penalizes their monthly benefits up to 60%. The Social Security benefits of every firefighter is penalized who do not have a minimum of 30 years of substantial earnings on their part-time jobs. Substantial earning for 2010 is set at $19,800. It is very rare indeed to have substantial earnings working a side job for 30 consecutive years.

Others have stated that fire department employees could vote in Social Security. Given the penalty of the Windfall Provisions, it is difficult, if not impossible, to get a successful vote to implement Social Security. Employees with 10 or more years on the job would pay 6.2% of their salary into Social Security for the next 20 years knowing their monthly benefits would be penalized. As the law stands today, local governments are not allowed to place just the new employees under Social Security. The law requires 100% of the employees to be participants.

We would ask the Commission to consider studying the possibility of implementing a Retirement Drop Plan. For those who may not know how this works, once the employee reaches the predetermined retirement date (use example of 30 years), they can elect the Drop Retirement Option but continue working on the job. The employee's retirement would go into an individual retirement account – the employee would no longer pay into the system so he/she would receive an additional 6% of pay. The employee could elect to deposit the extra 6% into a 401(k) or take it home. The Local government employer would no longer pay into the Retirement System and save the 4.8% or more, what ever their future contributions would have required. After entering the Drop Plan, the employee could work an additional 3, 5 or 10 years and draw their DP funds, with interest, upon full retirement. DP funds could be drawn in a lump sum or in scheduled payments to pay off mortgages, travel or spend in other ways. A Drop Plan Benefit would give employees a benefit they do not have now without taxing the Retirement System. This could also be implemented with the State and Teacher's Retirement Plan.

We would also ask the Commission consider studying the possibility of giving local governments the option of electing a 25 year retirement program. I am told that this also could be done with the State and Teachers Retirement System. We were told in years past that the old Retirement System's computer system had limited ability and this would not have been possible. Since the upgrades, I am told this can be done. We fully understand that a 25 year program will cost more. We also understand that we are in a recession but this recession will pass as all others have. I am making reference to the last six or seven recessions since 1950. As has happened after the previous recessions, there will be a time of plenty, so to speak. If we are able to plan now, we would be able to take advantage of the opportunity when it comes.

We are not asking the employer to take money away from other areas of their budget but only that they consider studying the redistributing of future budgets when it comes to salaries and benefits. It is a matter of gradually redistributing salary and benefit. Or, as has been said about retirement distribution before, do we pay up front or provide for retirement later. It is a radical way of looking at retirement but well worth the study. Lower retirement age will reduce the overall budgets of local governments, possibly enough to pay for the extra cost of implementing lower number of years to retirement. There are some who will disagree with this but local governments, such as Asheville, have offered six months salary to employees with over 20 years service to retire early. The math is very simple. A sixty thousand dollar per year employee is replaced with a twenty-eight thousand dollar per year employee. With the exception of the cost of promotional raises, the city has their money back within six months. A 25 year early retirement program can work successfully if it is done right. It is worth the consideration of a study.

In the short run, we urge this Study Commission not to make recommendations for the Retirement System to become any less funded than it is and in fact recommend ways to increase future benefits of retirees. Retirees deserve a decent cost of living increase each year.

Thank you for your time on this Commission and for the opportunity to speak with you today.

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