

Date: December 28, 2017

To: North Carolina School Superintendents Association Board of Directors
Jack Hoke, Executive Director

From: Ann McColl, NCSSA Attorney

Re: Impact of Change in Annuity Factor in Contribution-Based Benefit Cap (Spiking)

The Board of Trustees of the Teachers' and State Employees' Retirement System (TSERS) has adopted new annuity factors that are in effect for retirements on or after January 1, 2017. These factors were adjusted for longer life expectancies and will result in greater pension liabilities for those who may be subject to a contribution-based benefits cap.

For example, the liability owed increases from \$79,000 to \$143,000 in a scenario of a superintendent retiring at age 60 with 30 years of service with an average final compensation of \$175,000 and contributions of \$215,000. (See the attached chart for more on the calculations.)

It is important to be aware of this increased liability. Note that employees have no control over elements of the formula, such as the annuity factor and benefit factor cap, that can greatly increase the pension liability at the time of retirement.

Attached are several documents to assist NCSSA members in calculating potential liability.

The first is a spreadsheet. This has the information on the formula and how to calculate potential liability.

The second document has the new annuity factors. For the relevant information, look at the first page of charts and pull the figure for the member's age under "service" (first column to the left). For example, for age 60, the factor is 11.6238. The retirement system rounds figures to the third number to the right of the decimal: 11.624.

The third document provides the annuity factors in effect in 2016 ("Annuity Factor letter 2011"). This is provided so that members can see the change in potential liability caused by the adoption of the new factors.

In regard to litigation related to the contribution-based benefit cap, the administrative appeals by the Johnston, Wilkes, Union and Cabarrus school boards have been consolidated and transferred to Wake County. These are cases based on the failure of the retirement system to follow APA rule making in adopting the pension cap factor. This could have an impact on pension liability assessed under this practice. Unfortunately, this could be resolved going forward by the General Assembly providing exception to APA rules for adopting the pension cap. Such a bill, H183, has passed the House and has been referred to the Senate Rules and Operations Committee.

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