



# Teachers' and State Employees' Retirement System (TSERS)



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## North Carolina Retirement Systems

Revised January 2009

# Disclaimer

**This presentation is based on current legislation and is subject to change without notice. This material is to be used for training purposes only. Please contact the Retirement System for guidance or assistance.**

# Presentation Overview

- **Plan information**
- **Benefit eligibility requirements**
- **Calculation of benefits**
- **Types of service**
- **Unused sick leave at retirement**
- **Payment options**
- **Death benefits**
- **ORBIT**
- **Health insurance benefits**
- **Application process**
- **Taxes**
- **Reemployment**

# Plan Type

## 401(a) Defined Benefit Plan

- **Qualified under Internal Revenue Code 401(a)**
- **Guaranteed monthly lifetime benefits based on defined formula**
- **Benefits not based on employee and employer contributions typical of 401(k) plans**

# **Service Retirement Eligibility (Unreduced Benefits)**

- **30 years of creditable service at any age**
- **Age 65 with 5 years of membership service**
- **Age 60 with 25 years of creditable service**
- **Law Enforcement Officers (LEO) qualify at age 55 with 5 years of creditable service as an officer**

# **Early Retirement Eligibility (Reduced Benefits)**

- **Age 60 with 5 years of membership service**
- **Age 50 with 20 years of creditable service**
- **Law Enforcement Officers (LEO) qualify at age 50 with 15 years of creditable service as an officer**

# Defined Formula

**Annual retirement benefit based on:**

**1.82% of “average final compensation”**

**TIMES**

**years and months of “creditable service”**

**Note: reduction factors apply for early  
retirements**

# Average Final Compensation (AFC)

**AFC is the average of the highest four consecutive contract years of reported salary**

**Note: If the last four years produce the highest AFC, terminal leave payouts such as vacation, bonus leave and longevity are included**

# AFC Calculation Example - 12 Month Employee - July 1, 2010 Retirement

<u>Year</u>	<u>Months</u>	<u>Amount of Service</u>	<u>Gross Salary</u>
2010	Jan - June	6/12	\$35,361.45
2009	Jan - Dec	Full Yr	\$49,088.17
2008	Jan - Dec	Full Yr	\$46,473.01
2007	Jan - Dec	Full Yr	\$43,439.49
2006	July - Dec	6/12	<u>\$21,334.48</u>
			\$195,696.60 ÷ 4
		<b>AFC =</b>	<b>\$48,924.15</b>

# AFC Calculation Example - 10 Month Employee - July 1, 2010 Retirement

<u>Year</u>	<u>Months</u>	<u>Amount of Service</u>	<u>Gross Salary</u>
2010	Jan - May	5/10	\$38,361.45
2009	Jan - Dec	Full Yr	\$49,088.17
2008	Jan - Dec	Full Yr	\$46,473.01
2007	Jan - Dec	Full Yr	\$43,439.49
2006	Aug - Dec	5/10	<u>\$18,334.48</u>
			\$195,696.60 ÷ 4
		AFC =	\$48,924.15

# Retirement Factor

- **Currently 1.82%**
- **Determined by the General Assembly**



# Creditable Service

## Total of All Service

- **Contributing membership service**
  - **6% of gross monthly wages and salary**
  - **Set by state law**
  - **Condition of full-time employment**
- **Noncontributory**
  - **Service time for which member receives retirement credit**
  - **6% is not withheld from gross salary**

*Examples: free military service, short-term and extended short-term disability*
- **Eligible service purchased**
- **Unused sick leave as allowed by law**

# Service Purchase Categories

- **Withdrawn local or state governmental service**
- **Active military**
- **Full-time out-of-state governmental service**
- **Temporary local or state service**
- **Part-time local or state service**
- **Educational leave**
- **Service with the federal government**
- **Waiting period imposed by a local unit**
- **Omitted state or local governmental service**
- **Parental leave during state service**
- **Workers' Compensation leave**
- **Prior local service**
- **Extended illness during state service**
- **Charter school employment**
- **Withdrawn Optional Retirement Plan (ORP) service**

**Note:** For detailed information on service purchases, refer to your “Retirement Handbook” or contact either your Human Resources Department or the Retirement System

# **Unused Sick Leave at Retirement**

- **One month of creditable service is allowed for each 20 days of accrued sick leave and one more month for any additional portion (greater than one hour)**
- **Vacation leave in excess of 240 hours (30 days) can be transferred to your sick leave balance at year-end**
- **For public school personnel, excess annual leave is transferred to your sick leave balance at retirement**

# Earned Sick Leave

**Can be used to complete:**

- **30 years of service**
- **25 years of service after age 60**
- **20 years of service after age 50**

# Earned Sick Leave

**Cannot be used to meet minimums for:**

- **Deferred benefit**
- **Survivor's Alternate Benefit**
- **Disability retirement**
- **5 years to become eligible for retirement at age 60 or age 65**
- **5 years to become eligible for health insurance**

# Accumulated Sick Leave (Days)

<b>1 – 20 = 1 Month</b>	<b>201 – 220 = 11 Months</b>
<b>21 – 40 = 2 Months</b>	<b>221 – 240 = 12 Months</b>
<b>41 – 60 = 3 Months</b>	<b>241 – 260 = 13 Months</b>
<b>61 – 80 = 4 Months</b>	<b>261 – 280 = 14 Months</b>
<b>81 – 100 = 5 Months</b>	<b>281 – 300 = 15 Months</b>
<b>101 – 120 = 6 Months</b>	<b>301 – 320 = 16 Months</b>
<b>121 – 140 = 7 Months</b>	<b>321 – 340 = 17 Months</b>
<b>141 – 160 = 8 Months</b>	<b>341 – 360 = 18 Months</b>
<b>161 – 180 = 9 Months</b>	<b>361 – 380 = 19 Months</b>
<b>181 – 200 = 10 Months</b>	<b>381 – 400 = 20 Months</b>

# Estimate of Retirement Benefits

Assumptions: Member's Age = 49, Beneficiary Age = 51

AFC = \$48,924.15, Service = 30 years, Estimated SS@62 = \$1,100

<b>Option</b>	<b>Retiree Monthly Benefit</b>	<b>To One Beneficiary</b>
<b>Maximum</b>	<b>\$2,226.05</b>	<b>\$0</b>
<b>Option 2 100%</b>	<b>\$2,037.73</b>	<b>\$2,037.73</b>
<b>Option 3 50%</b>	<b>\$2,127.66</b>	<b>\$1,063.83</b>
<b>Option 4 To age 62 After age 62</b>	<b>\$2,568.88 \$1,468.88</b>	<b>\$0</b>
<b>Option 6-2 Pop-up</b>	<b>\$2,023.03</b>	<b>\$2,023.03</b>
<b>Option 6-3 Pop-up</b>	<b>\$2,119.87</b>	<b>\$1,059.94</b>

# Payment Plan Option Changes

- **Retirees cannot change payment plan option once first retirement check is cashed except under the following conditions:**
- **Exceptions**
  - **Divorce from spouse**
  - **Return to employment covered under TSERS and contribute to a new retirement account for at least 3 years**
  - **Redesignation\* of spouse provision under Options 2 or 3**

\*Redesignations must be made within 90 days of remarriage and must be filed with RSD no later than 120 days after remarriage.

# Retirement Benefit Payment Plans

- **Selection of monthly payment plan required**
- **Personal decision**
  - popular choices made by others should not influence your decision
- **Consider your financial situation, age, health, need to provide for dependent and your dependent's financial situation, age, health, etc.**

# Active Employee Death Benefits

- **Survivor's Alternate Benefit**

**IF a member who has not retired, dies in active service while being paid a salary or within 180 days after salary payments cease;**

**AND has named only one person as the principal beneficiary for the refund of contributions;**

**AND has reached age 60 with 5 years of membership service or completed 20 years of creditable service regardless of age;**

**THEN the principal beneficiary can elect a lifetime monthly benefit under Option 2, in lieu of a lump sum amount.**

**Note: Law Enforcement Officers (LEO) are eligible if they have 20 years of service regardless of age or reach age 50 with 15 years of service as a LEO, or reach age 55 with 5 years as a LEO**

# **Active Employee Death Benefits (Continued)**

- **Death Benefit for beneficiary**
  - **Payment equals highest 12 consecutive months of salary during 24 months before death**
  - **no less than \$25,000**
  - **no more than \$50,000**
- **Return of contributions and interest**

# **Retiree Death Benefits**

- **Continuation of monthly survivor option, if applicable**
- **Death Benefit**
  - **If death occurs within 180 days of the last day for which employee was paid salary, payment equals the highest 12 months salary in a row during the 24 months before death, but no less than \$25,000 and no more than \$50,000**
- **Guaranteed Refund**
  - **All retirement plans have guaranteed refund of accumulated retirement contributions regardless of the payment plan elected**

# Online Retirement Benefits through Integrated Technology



- Access from [www.myncretirement.com](http://www.myncretirement.com), then click “ORBIT” from the “Retirement” drop down menu
- Active employees
  - Retirement estimates
  - Service purchase cost estimates
- Retirees
  - View account information
  - Maintain tax withholdings
  - View 1099-R
  - Generate income verification letters

**Note for active employees: address changes should be submitted to your employer, or changed through BEACON (ORBIT will then be updated)**

# **Optional Insurance Benefits for Retirees**

- **Medical**
- **Dental**
- **Vision**
- **Voluntary Life Insurance**
- **Contributory Death Benefit (CDB)**

# NC State Health Plan

## Three plans currently offered:

- **NC Smart Choice Basic (PPO 70/30 Plan)**
- **NC Smart Choice Standard (PPO 80/20 Plan)**
- **NC Smart Choice Plus (PPO 90/10 Plan)**

**State Health Plan: 1-888-234-2416**

**[www.shpnc.org](http://www.shpnc.org)**

# State Paid Health Insurance Eligibility

- 1st hired prior to October 1, 2006:
  - Need 5 years of contributory State service to be eligible for State-paid health insurance (individual coverage) at retirement
- 1st hired on or after October 1, 2006:
  - Need 20 years of retirement service credit to be eligible for State-paid health insurance (individual coverage) at retirement
  - If 5 years but less than 10 years member may enroll and pay full cost
  - If 10 years but less than 20 years, member may enroll and pay 50% of the cost

# Dental, Vision and Voluntary Life Insurance

- **Soon after retirement, State Insurance Services will mail insurance plan information for:**
  - **Dental**
  - **Vision**
  - **Voluntary life insurance**
- **Optional**
- **Retirees pay full cost**
- **For more information contact:**  
**State Insurance Services (1-800-462-7864)**  
**[www.stateinsservices.com](http://www.stateinsservices.com)**

# **Contributory Death Benefit (CDB) for Retired Members**

- **Retirees receive CDB election forms shortly after submitting retirement application**
- **Election must occur within 60 days of retirement date**
- **The lump sum death benefit = \$10,000 provided all required contributions have been made for 24 full months**
- **If death occurs prior to receipt of 24 premium payments, amount payable = contributions plus interest**
- **Death benefit is payable to legal spouse at time of death or legal representative if not survived by legal spouse**

# Initiating Retirement

- **Member and Employer complete Form 6**  
***Claiming Your Monthly Retirement Benefit***
- **Within 120 days of retirement date, member mails to Retirement Services Division (RSD):**
  - **Form 6**
  - **Proof of birth**
  - **SS estimate at age 62 if interested in Option 4**
- **RSD mails to member:**
  - **Acknowledgement letter**
  - **Form 170 - *Authorizing Direct Deposit***
  - **Form 333 - *Choosing the Contributory Death Benefit***
  - **Form HM - *Selecting Health Coverage Through the State Health Plan***
- **RSD reviews eligibility, service, and salary**

# Retirement Process (Continued)

- **Approximately 90 days after receipt of application, RSD mails to member:**
  - Report of your Estimated Retirement Benefits
  - Form 6E - *Choosing Your Retirement Payment Option*
  - Form 290 - *Choosing Income Tax Withholding Preferences*
  - Supplemental Income Plan rollover information for LEO members (if applicable)
- **Member:**
  - Makes decision regarding a payment plan
  - Submits completed Form 6E to RSD for processing

# Retirement Process Reminders

- Retirements always effective 1<sup>st</sup> day of the month
- Application must be signed, dated, and filed at least one day and not more than 120 days prior to the effective date of retirement
- Applications are processed on a “first in” “first out” basis
- Direct deposit is highly recommended
- First payment is always mailed
- Pay day is the 25<sup>th</sup> of each month (If the 25<sup>th</sup> falls on a weekend or holiday, the deposit will be made on the last workday before the weekend or holiday)
- December deposit usually on the 20<sup>th</sup> of the month

# Federal Income Tax

- Retirement benefits are subject to federal tax
- The retirement system withholds federal tax based on:
  - The taxable portion of the benefit
  - The filing status (married, single)
  - The number of allowances claimed (0, 1, 2, etc.)
- The taxable portion of the monthly retirement benefit consists of:
  - Contributions made on a “pre-taxed” basis after July 1, 1982
  - Additional service credit purchased with “pre-taxed” dollars after January 1, 2003
  - All interest accrued prior to retirement

# North Carolina Income Tax

- If you have maintained five or more years of retirement membership service in TSERS as of August 12, 1989, your entire retirement benefit is exempt from North Carolina income tax
- If you were not vested as of August 12, 1989 you will be required to pay North Carolina income tax on the taxable portion of your retirement benefit (less a \$4,000 yearly exclusion)

# Tax Documentation

- **Form 1099-R mailed by RSD before January 31**
  - Provides amount of retirement benefits
  - Taxable portion (if any)
  - Amount withheld (if any)
- **Changing Tax Withholdings**
  - Retirees complete Form 290 *Choosing Income Tax Withholding Preferences*

# Reemployment

## Three Categories:

1. Return as a full-time contributing member of TSERS
2. Return under an earnings restriction (earnable allowance)
3. Return as a “retired rehired teacher”

## 1. Return as a full-time contributing member of TSERS:

- After a 6 month break in service, retiree may suspend their retirement and become reemployed in a TSERS position
- Retirement payment will be stopped the first day of the month following the month of reemployment
- At that time, the reemployed individual will again become an active contributing member of TSERS

# Reemployment (Continued)

2. Return Under an “Earnings Restriction”  
(after 6-month waiting period)
  - **Earnable Allowance in a “non-contributing” capacity = 50% of the retired member’s compensation during the 12 months of service before retirement excluding terminal leave payouts or \$28,080.00, whichever is greater**
  - **The Earnable Allowance generally increases each year by the percentage increase in the Consumer Price Index**

# Reemployment (Continued)

## 3. Return as a “Rehired Retired Teacher” In a Public School System

- Retirements after October 1, 2007
  - After a 6 month wait following retirement with no work performed in any capacity, members who retired on an unreduced service retirement can return to teach in a full-time position with no earnings restriction
  - Members who retired with a reduced retirement are subject to the earnings restriction

# Penalty for Exceeding Earnable Allowance

- Retirement payments are stopped on the 1st day of the month following the month in which the retiree has exceeded the earnable allowance
- Retirement payments start again on January 1st of the year after the benefit is stopped
- Health insurance in the retiree group is stopped the 1st day of the month following suspension of retirement payments

# ALERT

## IN ALL CASES:

- Pre-existing agreements for post retirement employment are prohibited
- A return to work in any job classification without a 6 month wait causes a revocation of all retirement benefits retroactive to the retirement date
- The Department of Public Instruction shall certify if a retiree is eligible to return to teach
- A teacher contribution rate of 11.7% of gross salary is required for anyone returning to teach under the exemption

# How to Reach RSD

**Phone:** Raleigh area 807-3050  
Toll Free 1-877-627-3287

**Internet:** [www.myncretirement.com](http://www.myncretirement.com)

**E-Mail:** [nc.retirement@nctreasurer.com](mailto:nc.retirement@nctreasurer.com)

**U.S. Mail** NC Department of State Treasurer  
Retirement Systems Division  
325 North Salisbury Street  
Raleigh, NC 27603-1385

**Office visits are scheduled by appointments only**

# ENJOY YOUR RETIREMENT!

