

MEMBER HANDBOOK

TEACHERS' AND STATE EMPLOYEES'
RETIREMENT SYSTEM



North Carolina
Total Retirement Plans



Dale R. Folwell, CPA
STATE TREASURER OF NORTH CAROLINA
DALE R. FOLWELL, CPA

REVISED JANUARY 2018



Welcome to the North Carolina Teachers' and State Employees' Retirement System! You are now part of one of the five best pension plans in the country, according to S&P Global.

The Teachers' and State Employees' Retirement System (TSERS) is a state-sponsored pension plan administered by the North Carolina Total Retirement Plans within the Department of State Treasurer (DST). Here, our mission is to preserve and protect this benefit for current and future public employees in North Carolina.

Partners in Planning for Your Retirement

DST is excited to partner with you during and after your service to North Carolina. In this partnership, our role at DST is to maintain the integrity and sustainability of the NC Total Retirement Plans and retiree health coverage through the State Health Plan. Your role is to make sure you're doing all you can to secure your financial future. Each month, you, your employer and DST (through investment gains) contribute to your retirement account. As you can see in the graphic, your employer and the pension system are investing a lot in you because your work to this state is highly valued!

Many financial experts suggest that individuals will need a monthly income in retirement equal to 80 percent of their pre-retirement pay. When planning for a secure retirement, I encourage you to determine how much retirement income you'll need to feel secure after you stop working. As you make that determination, I urge you to consider not only your TSERS benefits but your personal savings as well. We have some amazing supplemental retirement plans available exclusively to the public employees in North Carolina. The NC 401(k), NC 457 and NC 403(b) plans have some of the lowest fees in the nation and are a great way to make sure that your retirement income will support the lifestyle you imagine.



Understanding Your Pension Benefit

In this handbook you'll find all the details you need to understand your retirement options. You'll also find many of the tools and resources you need to make informed decisions about your retirement on ORBIT, our secure web portal, at ORBIT.MyNCRetirement.com. Once you've registered, you'll be able to safely and securely manage your pension account and stay informed. You can also visit our website at www.MyNCRetirement.com for additional retirement resources.

If you have questions specific to you, contact the North Carolina Total Retirement Plans at the number below. Our retirement counselors can assist with the status of an application or answer questions about your TSERS retirement or disability and death benefits.

Thank you for your service to the people of North Carolina, and we look forward to working with you!

Sincerely,

Dale R. Folwell, CPA

Dale Folwell, CPA

1-877-NC-SECURE (877-627-3287) Toll-free

nc.retirement@nctreasurer.com

www.MyNCRetirement.com

CONTENTS

MEMBER HANDBOOK TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM

| | | |
|------------------|---|-----------|
| SECTION 1 | ABOUT YOUR RETIREMENT SYSTEM | 6 |
| SECTION 2 | MEMBERSHIP IN TSERS | 7 |
| | Designating Beneficiaries | 7 |
| | Forfeiting Eligibility for Criminal Offenses | 7 |
| SECTION 3 | QUALIFYING FOR BENEFITS | 8 |
| | Vesting | 8 |
| | Service Retirement (Unreduced Benefits) | 8 |
| | Early Retirement (Reduced Benefits) | 8 |
| | Vested Deferred Benefit | 8 |
| | Refund of Contributions | 8 |
| | Reciprocity Between Retirement Systems | 9 |
| | Transferring Service & Contributions Between Retirement Systems | 9 |
| | Required Distributions After Age 70 $\frac{1}{2}$ | 9 |
| SECTION 4 | HOW YOUR BENEFIT IS CALCULATED | 10 |
| | Retirement Formula | 10 |
| | Service Retirement Calculation Example | 10 |
| | Early Retirement Reduction Percentages | 12 |
| | Early Retirement Calculation Example | 13 |
| | Examples of Monthly Benefits Paid | 14 |
| | Benefit Limitations | 15 |
| SECTION 5 | YOUR BENEFIT PAYMENT OPTIONS | 16 |
| | Example of Payment Options | 19 |
| SECTION 6 | ADDING TO YOUR CREDITABLE SERVICE | 20 |

DISCLAIMER: The availability and amount of all benefits you might be eligible to receive is governed by North Carolina law. The information provided in this handbook cannot alter, modify or otherwise change the controlling North Carolina law or other governing legal documents in any way, nor can any right

accrue to you by reason of any information provided or omission of information provided herein. In the event of a conflict between this information and North Carolina law, North Carolina law governs.

CONTENTS CONTINUED

| | |
|-------------------|--|
| SECTION 7 | DEATH BENEFITS 23 |
| | Active Employee Death Benefits 23 Retiree Death Benefits 24 |
| SECTION 8 | INITIATING YOUR RETIREMENT BENEFITS 25 |
| | Retirement Application Process 25 Your First Monthly Benefit 26 Post-Retirement Increases 26 |
| SECTION 9 | NC 401(k), NC 457 AND NC 403(b) 27 |
| SECTION 10 | INCOME TAX 28 |
| | Retirement and Disability Retirement Benefits 28 Guaranteed Refunds and Return of Contributions 28 Active Death Benefits and Contributory Death Benefits 29 |
| SECTION 11 | HEALTH COVERAGE IN RETIREMENT 30 |
| | State Health Plan 30 Optional Supplemental Insurance 30 |
| SECTION 12 | RETURNING TO WORK AFTER RETIREMENT 31 |
| | The Required Six-Month Break Guidelines 31 Six-Month Break in Service Required 31 Working After a Six-Month Break With TSERS Membership 32 Working After a Six-Month Break Without TSERS Membership 32 Exceeding Your Earning Limitations 33 After Receiving Disability 33 Overpayments 33 Effects on Health Coverage 33 Under the Legislative or Consolidated Judicial Systems 33 |

DISCLAIMER: The availability and amount of all benefits you might be eligible to receive is governed by North Carolina law. The information provided in this handbook cannot alter, modify or otherwise change the controlling North Carolina law or other governing legal documents in any way, nor can any right

accrue to you by reason of any information provided or omission of information provided herein. In the event of a conflict between this information and North Carolina law, North Carolina law governs.

CONTENTS

CONTINUED

| | |
|-------------------|--|
| SECTION 13 | DISABILITY BENEFITS 34 |
| | Disability Income Plan of North Carolina (DIPNC) 34 TSERS Disability Retirement Benefits 34 |
| SECTION 14 | ADMINISTRATION AND FUNDING 35 |
| SECTION 15 | RESOURCES AND CONTACTS 38 |
| | ORBIT 38 Web-Based Resources 39 Contact Us 39 |
| SECTION 16 | GLOSSARY OF TERMS 40 |

DISCLAIMER: The availability and amount of all benefits you might be eligible to receive is governed by North Carolina law. The information provided in this handbook cannot alter, modify or otherwise change the controlling North Carolina law or other governing legal documents in any way, nor can any right

accrue to you by reason of any information provided or omission of information provided herein. In the event of a conflict between this information and North Carolina law, North Carolina law governs.

Section 1: About Your Retirement System

The Teachers' and State Employees' Retirement System (TSERS) is a defined benefit plan qualified under Section 401(a) of the Internal Revenue Code. Defined benefit plans use a formula to calculate monthly retirement benefits once eligibility requirements have been met. This handbook explains TSERS benefit eligibility requirements and the formula used to calculate benefits. Terms in **bold type** are defined in [Section 16 – Glossary of Terms](#).

Paying for Your Retirement Benefits

You, the state of North Carolina and the investment earnings on total contributions pay the cost of providing your retirement benefits.

Your share of the cost is currently six percent of your compensation, and it is automatically deducted from your paycheck. Your compensation includes all eligible salaries and wages, as defined by statute, paid to you from public funds, earned at your covered job while working for the state.

The state bases its contributions on calculations prepared by an **actuary**. The state contribution rate from July 1, 2017, to June 30, 2018, is 17.13 percent of all members' salaries to pay for the benefits for you and other members.

Tax Savings

Since July 1, 1982, your contributions have been tax-deferred. This means your contributions are deducted from your pay before taxes are calculated, and you pay taxes on them when you begin receiving monthly retirement benefits or if you elect a refund of your contributions. This is a benefit to you because your current taxable income is lowered and the amount of annual taxes you pay is less than if you made contributions after paying taxes. [See pages 28 and 29](#) for more information about your tax liability on benefits.

Investing Contributions

Contributions to TSERS are invested by the Department of State Treasurer and these funds are protected by the Constitution of North Carolina from being used for any purpose other than retirement system benefits and expenses.

ORBIT Secure Account

ORBIT is a secure site that allows you to view your



personal account information, download retirement forms and access retirement resources 24 hours a day, seven days a week. To set up or log in to your personal ORBIT account, go to our website at www.MyNCRetirement.com, click on the ORBIT icon and follow the log in instructions. [See page 38](#) for more information about ORBIT.



Section 2: Membership in TSERS

Membership in TSERS is automatic for eligible employees. You become a TSERS member on your hire date if you are:

- A permanent full-time teacher or employee of a state-supported board of education or community college.
- A permanent employee of the state (or any of its agencies, departments, bureaus or institutions) and work at least 30 hours per week for nine months per year.
- A permanent employee of a charter school that participates in TSERS, and you work at least 30 hours per week for nine months per year.

You may join an optional retirement program instead of TSERS if you are:

- A faculty member, administrator or other eligible employee at a state institution of higher education
- An eligible employee of UNC Health Care
- A community college president

If you are an Agricultural Extension Service employee and a member of the Federal Employees' Retirement System, you may not join TSERS. Contact your employer for more details about the alternate systems.

Designating Beneficiaries

After your employer enrolls you in TSERS, you should name beneficiary(ies) to receive a return of your retirement contributions and a death benefit, should you die before retirement. To add or change beneficiaries, log in to ORBIT or complete Form 2C (Designating Beneficiary(ies)).

Forfeiting Eligibility for Criminal Offenses

Elected government officials, who were not vested on July 1, 2007, will forfeit their right to a monthly benefit from TSERS if convicted of certain state or federal offenses related to their service as an elected official. Elected officials who were vested on July 1, 2007, are not entitled to creditable service accrued in TSERS after July 1, 2007, if convicted of certain state and federal offenses related to their service as an elected official.

If you were not vested as of December 1, 2012, and are convicted of a state or federal felony directly related to your employment while in service under TSERS, you are prohibited from receiving any retirement benefit other than a return of your contributions plus interest. If you were vested as of December 1, 2012, you are prohibited from receiving any retirement benefit for service rendered after December 1, 2012, other than a return of your contributions plus interest for the period of service after December 1, 2012.



Section 3: Qualifying for Benefits

Vesting

You become vested in TSERS once you have completed a minimum of five years of membership service. This means that you are eligible to apply for lifetime monthly retirement benefits based on the retirement formula in effect at the time of your retirement and the age and service requirements described in this handbook, provided you do not withdraw your contributions. You may also be eligible for retiree health coverage. [See page 30](#) for more information on health coverage.

Service Retirement (Unreduced Benefits)

You may retire with an unreduced service retirement benefit after you:

- Reach age 65 and complete five years of **membership service**
- Reach age 60 and complete 25 years of **creditable service**
- Complete 30 years of creditable service at any age

Early Retirement (Reduced Benefits)

You may retire early with a reduced retirement benefit after you:

- Reach age 50 and complete 20 years of creditable service
- Reach age 60 and complete five years of membership service

Your early retirement benefit is calculated using the same formula as a service retirement benefit multiplied by a reduction percentage based on your age and/or service at early retirement. Because your benefit may be paid over a longer period of time than if you had waited until being eligible for service retirement, your benefit will be reduced. The tables beginning on [page 12](#) show the effects these reductions would have on your benefit.

Vested Deferred Benefit

If you leave TSERS for any reason other than retirement or death, you can either receive a refund of your contributions, plus interest, or leave your contributions in TSERS and keep all the creditable service you earned to that date.

You may be entitled to receive a deferred benefit at a later date once you meet eligibility requirements after you have completed five years of membership service, provided you do not withdraw your contributions. Your benefit is calculated using the formula in effect on your retirement date. It is based on your average final compensation and years of creditable service at that time.

Refund of Contributions

If you leave TSERS before you have five years of membership service, the only payment you can receive is a refund of your contributions plus interest.

State law prohibits us from making a refund earlier than 60 days after you leave covered employment. If you withdraw your retirement contributions, you forfeit your retirement service credit and rights to all benefits associated with the service for that time period, including medical coverage through the State Health Plan, if applicable.

However, if you leave state employment and you do not take a refund, you will retain your benefits and rights should you return to state service at a later time.

Set by state law, the interest credited on your contributions and paid with a refund is four percent compounded annually on your prior-year ending balance.

Section 3: Qualifying for Benefits

To receive a refund, complete Form 5 (*Withdrawing Your Retirement Service Credit and Contributions*).

Reciprocity Between Retirement Systems

Any credit you may have in the following Retirement Systems may be counted along with your credit in TSERS in order to determine your eligibility for a reduced or unreduced benefit:

- Legislative (LRS)
- Consolidated Judicial (CJRS)
- Local Governmental Employees' (LGERS)

However, only your creditable service in TSERS is used in computing the amount of your benefit in TSERS. Creditable service in any other system is used to compute benefits from that system.

In addition, any service credit you have in the UNC Optional Retirement Program may be added to your creditable service in TSERS in order to determine eligibility for benefits from TSERS.

Transferring Service & Contributions Between Systems

You can transfer your contributions and creditable service between TSERS and LGERS as long as you are an eligible member of the system to which you are transferring, do not receive a refund of your contributions from the system from which you are transferring and file Form 5TR (*Transferring Service and Contributions Between Systems*).

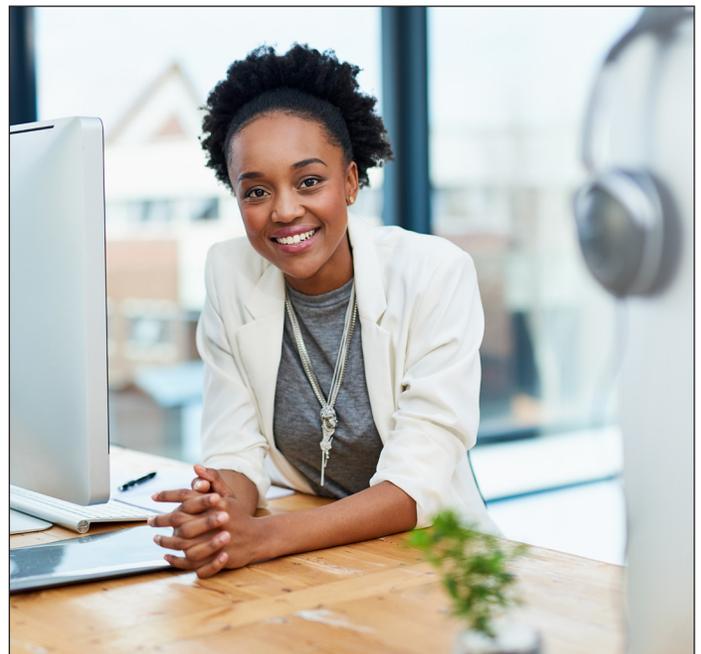
Transferred creditable service counts toward your eligibility for a monthly benefit and is used to compute the amount of your benefit. Overlapping transferred service cannot be counted twice for the same time period.

A transfer can affect your eligibility for State Health Plan coverage under the Retirement Systems. For more information about the State Health Plan, [see page 30](#).

After completing five years of membership service in TSERS, you may transfer contributions and creditable service from CJRS and LRS to TSERS. Contact us for additional information and instructions.

Required Distributions After Age 70½

In most cases, TSERS is required to pay benefits to non-retired members with open TSERS accounts by April 1 of the year following the year in which the member reaches age 70½ or ceases to be an employee, whichever is later. Members who are vested (five or more years of membership service) who fail to complete the retirement process will receive a monthly retirement benefit based on the Maximum Allowance. Non-vested members who fail to complete a refund application will receive a refund of their contributions and interest at age 70½.



Section 4: How Your Benefit is Calculated

Retirement Formula:

$$\begin{aligned} \text{Your annual benefit} = & \\ & 1.82\% \\ & \text{of average final compensation} \\ & \times \\ & \text{years and months} \\ & \text{of creditable service} \end{aligned}$$

Average final compensation is the average of your salary during your four highest-paid years in a row. If your four highest-paid years in a row include a final payment for unused vacation leave and/or prorated longevity, your average final compensation may be increased by the extra payment(s). Final payments, if any, for unused sick leave or reimbursements for expenses are not includable in your average final compensation.

Creditable service is the total of all service credit that counts toward retirement. It includes membership service for any period you contribute

to TSERS, provided you have not withdrawn your contributions. It also includes credit for eligible purchased service and eligible unused sick leave that is converted to creditable service at retirement. [See pages 20-23](#) for more details.

Service Retirement Calculation Example

Assume employee Mary Benson works for 10 months per year and retires at age 60 with 32 years and two months of creditable service and an average final compensation of \$40,954. Because Mary has more than 30 years of creditable service at retirement, she receives her basic benefit of about \$24,000 a year (about \$2,000 monthly) for the rest of her life under the maximum allowance. Monthly payments would stop at her death.

The following steps show how we calculate Mary's benefit. Use the spaces in the left-hand column to fill in your figures for an estimate of your benefit.



Section 4: How Your Benefit is Calculated

Step 1

Add your salary during your 4 highest-paid years in a row

| | You | <i>example</i> |
|--------------|--------------------------------|------------------|
| Year 1 | \$ <input type="text"/> | \$39,988 |
| Year 2 | \$ <input type="text"/> | \$40,484 |
| Year 3 | \$ <input type="text"/> | \$41,350 |
| Year 4 | \$ <input type="text"/> | \$41,994 |
| Total | \$ <input type="text"/> | \$163,816 |

Then, divide the total by 4 to get your average final compensation

| | | |
|-----------------------------------|---|-------------------------------|
| Average Final Compensation | <i>divide by 4</i> \$ <input type="text"/> | <i>/ 4</i> \$40,954 |
|-----------------------------------|---|-------------------------------|

Step 2

Multiply Step 1 by .0182 to apply the retirement formula* ([see page 10](#))

| | | |
|--------------|--------------------------------|-----------------|
| Step 1 | \$ <input type="text"/> | \$40,954 |
| | <i>x .0182</i> | <i>x .0182</i> |
| Total | \$ <input type="text"/> | \$745.36 |

Step 3

Determine your creditable service ([see pages 20-23](#))

| | |
|----------------------|-------------------|
| <input type="text"/> | 32.2 years |
|----------------------|-------------------|

Step 4

Calculate your annual benefit* by multiplying Step 2 by Step 3

| | | |
|-----------------------------|--------------------------------|--------------------|
| Step 2 | \$ <input type="text"/> | \$745.36 |
| Step 3 | <i>x</i> <input type="text"/> | <i>x</i> 32.2 |
| Total Annual Benefit | \$ <input type="text"/> | \$24,000.59 |

Step 5

Calculate your monthly benefit* by dividing Step 4 by 12

| | | |
|------------------------------|--------------------------------|-------------------|
| Step 4 | \$ <input type="text"/> | \$24,000.59 |
| | <i>divide by 12</i> | <i>/ 12</i> |
| Total Monthly Benefit | \$ <input type="text"/> | \$2,000.05 |

(This is an estimate of the payment you will receive each month before taxes or any other deductions.)

*Remember, if you retire early, these numbers will change. See next page for how to calculate early retirement amounts.

Section 4: How Your Benefit is Calculated

Early Retirement Reduction Percentages

Your age at retirement is an important factor in determining your monthly benefit. As you saw on page 8, if you do not meet the requirements for a full service retirement, you may still retire early, but you will receive a reduced monthly benefit for your lifetime.

Early retirement benefits are calculated using the same formula as a service retirement multiplied by a reduction percentage based on your age and/or service at early retirement. If you are between ages 60 and 65, with less than 25 years of creditable service, your early service retirement benefit will be reduced to the following percentages. If you are between birthdays when payments start, the reduction will be adjusted proportionately.

| If you are this age when payments start | You receive this percentage of your benefit |
|---|---|
| 64 | 97% |
| 63 | 94% |
| 62 | 91% |
| 61 | 88% |
| 60 | 85% |

If you are between ages 50 and 59, with less than 30 years of creditable service, your early retirement will be reduced to the percentages shown in the table below.

| | | Years of Creditable Service | | | | | | | | | |
|------------|-----------|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | 29 | 28 | 27 | 26 | 25 | 24 | 23 | 22 | 21 | 20 |
| Age | 59 | 95% | 90% | 85% | 80% | 80% | 80% | 80% | 80% | 80% | 80% |
| | 58 | 95% | 90% | 85% | 80% | 75% | 75% | 75% | 75% | 75% | 75% |
| | 57 | 95% | 90% | 85% | 80% | 75% | 70% | 70% | 70% | 70% | 70% |
| | 56 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 65% | 65% | 65% |
| | 55 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 60% | 60% | 60% |
| | 54 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 60% | 55% | 55% |
| | 53 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 60% | 55% | 52% |
| | 52 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 60% | 55% | 50% |
| | 51 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 60% | 55% | 50% |
| | 50 | 95% | 90% | 85% | 80% | 75% | 70% | 65% | 60% | 55% | 50% |

Section 4: How Your Benefit is Calculated

Early Retirement Calculation Example

Assume employee Fred Wise works 12 months per year and retires at age 61 with 24 years and three months of creditable service and an average final compensation of \$40,954.

Here is how we calculate this benefit

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|------------------|-------------------------------------|-------------------------------------|---|-------|--|--|--|--|----|--------|--|---|-------|-----------------------------|--|--|--|----|-----------|--|---|----|-----------|-------------------------------|---|-----|--|--|--|--|----|------------------|--|
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 15%; text-align: right;">40,954.00</td> <td style="width: 75%;"><i>(average final compensation)</i></td> </tr> <tr> <td style="text-align: right;">x</td> <td style="text-align: right;">.0182</td> <td></td> </tr> <tr> <td colspan="3" style="border-top: 1px solid black;"></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">745.36</td> <td></td> </tr> <tr> <td style="text-align: right;">x</td> <td style="text-align: right;">24.25</td> <td><i>(creditable service)</i></td> </tr> <tr> <td colspan="3" style="border-top: 1px solid black;"></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">18,074.98</td> <td></td> </tr> </table> | \$ | 40,954.00 | <i>(average final compensation)</i> | x | .0182 | | | | | \$ | 745.36 | | x | 24.25 | <i>(creditable service)</i> | | | | \$ | 18,074.98 | | <p><i>Now apply the early retirement reduction percentage from page 12.</i></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 15%; text-align: right;">18,074.98</td> <td style="width: 75%;"><i>(percentage at age 61)</i></td> </tr> <tr> <td style="text-align: right;">x</td> <td style="text-align: right;">.88</td> <td></td> </tr> <tr> <td colspan="3" style="border-top: 1px solid black;"></td> </tr> <tr> <td style="text-align: right;">\$</td> <td style="text-align: right;">15,905.98</td> <td></td> </tr> </table> | \$ | 18,074.98 | <i>(percentage at age 61)</i> | x | .88 | | | | | \$ | 15,905.98 | |
| \$ | 40,954.00 | <i>(average final compensation)</i> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| x | .0182 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ | 745.36 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| x | 24.25 | <i>(creditable service)</i> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ | 18,074.98 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ | 18,074.98 | <i>(percentage at age 61)</i> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| x | .88 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ | 15,905.98 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Fred receives a benefit under the maximum allowance of about \$15,905 a year (about \$1,325 monthly). His payment will start at age 61 and continue for the rest of his life.

Assume, however, that Fred is age 59 instead of age 61. With 24.25 years of creditable service, his early service retirement reduction percentage is 0.80 instead of 0.88. In this case, Fred receives a benefit under the maximum allowance of about \$14,460 a year (about \$1,205 a month). His payment will start at age 59 and continue for the rest of his life.

Section 4:

How Your Benefit is Calculated

Examples of Benefits Paid

The following chart shows the approximate monthly benefit paid under the maximum allowance option at various salary levels, depending on age and creditable service. These are only examples. Your own benefit is calculated individually and depends on your age, creditable service and average final compensation.

| | Age | 50 | 55 | 60 | N/A | N/A |
|-----------------------------------|-----------------|---------|---------|---------|---------|---------|
| | Yrs. of Service | 20 | 28 | 25 | 30 | 40 |
| Average Final Compensation | \$80,000 | \$1,213 | \$3,057 | \$3,033 | \$3,640 | \$4,853 |
| | 70,000 | 1,061 | 2,675 | 2,654 | 3,185 | 4,246 |
| | 60,000 | 910 | 2,293 | 2,275 | 2,730 | 3,640 |
| | 55,000 | 834 | 2,102 | 2,085 | 2,502 | 3,336 |
| | 50,000 | 758 | 1,911 | 1,895 | 2,275 | 3,033 |
| | 45,000 | 682 | 1,719 | 1,706 | 2,047 | 2,730 |
| | 40,000 | 606 | 1,528 | 1,516 | 1,820 | 2,426 |
| | 35,000 | 530 | 1,337 | 1,327 | 1,592 | 2,123 |
| | 30,000 | 455 | 1,146 | 1,137 | 1,365 | 1,820 |
| | 25,000 | 379 | 955 | 947 | 1,137 | 1,516 |

Section 4: How Your Benefit is Calculated

Benefit Limitations

Occasionally, a retiree may be subject to the benefit limitations described below:

- **Contribution-Based Benefit Cap**

As a member of TSERS, you contribute six percent of your monthly income toward your retirement. If you receive significant salary increases in the years before retirement or over the course of your career, your monthly retirement benefit at retirement may exceed what your contributions will fund. Significant late-career promotions, conversion of benefits into compensation, and leave payouts at retirement may also cause your monthly retirement benefit to exceed what your contributions will fund. Without a method to recover the funds, these substantial unforeseen costs will erode the integrity of the retirement systems. To protect this system for current and future retirees a Contribution-Based Benefit Cap was created.

If you retire on or after January 1, 2015, with an average final compensation (AFC) of \$100,000 or more (adjusted annually for inflation), you may fall under a contribution-based benefit cap.

If you were first hired before January 1, 2015, your last employer will be required to pay the additional contribution if it is determined that your allowance is in excess of the cap and is subject to an adjustment. TSERS will notify your employer and will provide a statement of the cost of the additional contribution required to pay for your benefit in excess of the cap.

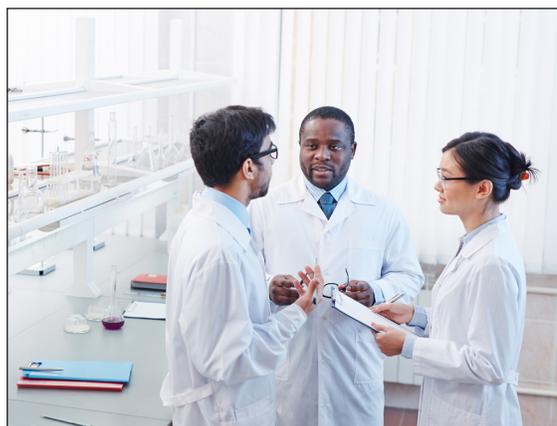
If you were first hired on or after January 1, 2015, your employer may choose whether or not to pay this additional contribution; if your employer chooses not to pay, you will be required to accept

a benefit reduced to the benefit cap unless you pay the additional contribution. TSERS will notify you and will provide a statement of the cost of the additional contribution required to pay for your benefit in excess of the cap, along with the deadline to submit permit.

- **IRC Section 415(b) Annual Pension Benefit Limit**

If you are a highly compensated employee, your TSERS benefits may be subject to the [Internal Revenue Code \(IRC\) section 415\(b\)](#) annual pension benefit limit. The determination of whether your retirement benefit will be subject to the limit can only be made at retirement. The limit varies every year, so your benefit could be affected one year but not the next. The limit varies each year and is set by the IRS. The limit is affected by many factors that were established by the IRS that may or may not apply to a particular individual.

Legislation enacted by the 2013 General Assembly established a Qualified Excess Benefit Arrangement (QEBA) fund to pay the part of a retiree's retirement allowance that exceeds the limit. Members hired prior to January 1, 2015, are eligible to receive benefit payments from the QEBA fund.



Section 5: Your Benefit Payment Options

At retirement, you must elect one of the payment options described [on page 17](#). On average, the payment options are mathematically equal to one another. That is, each option is calculated so that its total value is the same as the value of the other options if you and the beneficiary you name (if any) to receive a monthly payment after your death live your expected life spans.

Considering Your Options

First, decide whether you need a payment option that provides a monthly benefit to a beneficiary after your death. If you do not select one of these options, all of your retirement benefits will be used to provide you with a lifetime monthly payment that stops at your death.

Your choice of payment options is personal and should take into account your needs during retirement and the needs of a dependent, if any, after your death. Neither the payment plan selected by a co-worker nor the one selected by the largest number of retirees should have any effect on your personal decision.

Permanent Decision

You cannot change your selected payment option once you cash your first retirement check or after the 25th of the month following the month your first check is mailed (whichever is earlier) except under one of the following two conditions:

- If you select an option that provides a monthly benefit to your spouse as a beneficiary after your death (Option 2, 3, 6-2 or 6-3) and later become divorced from that spouse.
- If you are rehired in a position covered by TSERS and contribute to your new account for at least three years.



Section 5: Your Benefit Payment Options

Here are Your Benefit Payment Options:

- **Maximum Allowance**

When you retire with a full service retirement benefit, your basic benefit is the maximum allowance and is calculated under the formula on [page 8](#). If you retire early, your maximum allowance is calculated using the same formula, which is then reduced for early retirement. In either case, you will receive your maximum allowance for as long as you live. All monthly payments stop at your death.

- **Option 2: 100% Joint & Survivor**

- You receive reduced monthly payments for life.
- After you die, your monthly survivor beneficiary receives the same amount monthly for life.

- **Option 3: 50% Joint & Survivor**

- You receive reduced monthly payments for life which are slightly larger than the payments in Option 2.
- After you die, one half of your payment continues to your monthly survivor beneficiary for life.

- **Option 4: Social Security Leveling**

- You receive larger monthly payments than you would otherwise be entitled to receive until you are eligible for Social Security at age 62.
- Beginning the month after the month of initial entitlement for Social Security age 62 benefits, your monthly payments will be reduced to an amount that is less than what you would otherwise be entitled to receive. Nevertheless, your reduced retirement payments after age



62, plus your allowance from the Social Security Administration, should be approximately the same amount as the inflated payment you received from TSERS before age 62.

- The actual amount of your retirement payments both before and after age 62 will be based on the estimate of benefits you provide to us from the Social Security Administration before your retirement.
- All monthly payments stop at your death.

The reduction in your monthly retirement payments after age 62 allows us to recover the inflated amounts you received before age 62.

Any percentage increase you are granted in your retirement benefit before age 62 will be applied to the inflated benefit you are receiving at that time. However, when you reach age 62, your retirement benefit will be reduced to the original amount promised after age 62 plus the percentage increases (not the dollar amount of increases) granted before age 62.

Section 5: Your Benefit Payment Options

- **Option 6–2: Modified Joint & Survivor (combination Maximum Allowance and Option 2)**

- You receive reduced monthly payments for life.
- After you die, your monthly survivor beneficiary receives the same amount monthly for life.
- However, if your beneficiary dies before you do, your monthly payments increase to the amount payable under the maximum allowance.

- **Option 6–3: Modified Joint & Survivor (combination Maximum Allowance and Option 3)**

- You receive reduced monthly payments for life.
- After you die, one half of your payment continues to your monthly survivor beneficiary for life.
- However, if your beneficiary dies before you do, your monthly payments are increased to the amount payable under the maximum allowance.

It is important to note that if you select a benefit payment option that names a beneficiary, you should immediately notify the Retirement Systems if that person dies before you.

NOTE: Under Options 2, 3, 6-2 and 6-3, you may name only one beneficiary to receive a monthly survivor benefit after your death. You may not change your survivor beneficiary after you retire except under one of the following circumstances:

- If you named your spouse as survivor beneficiary at the time of retirement and later become divorced from that spouse.

- If you return to employment covered under TSERS and contribute to a new retirement account for at least three years.
- If you chose Option 2 or 3 at retirement, and designated your spouse as survivor beneficiary, and this spouse dies before you, and you remarry, you may request to nominate your new spouse as your beneficiary within 90 days of your remarriage under the same option you chose at retirement. Contact our office and we will mail you a letter outlining the documents we need to make the change. You must file this redesignation with TSERS within 120 days of your remarriage.

Your new benefit will be reduced on the basis of your age and the age of your spouse at the time of the change. The benefit payable to you will be the benefit you received before the death of your previous spouse, additionally reduced to cover your new spouse as beneficiary.



Section 5: Your Benefit Payment Options

Example of Payment Options

Assume John Murphy has earned a service retirement benefit under the maximum allowance of \$2,000 a month. He wants to share his benefit with his wife, Pam, who is 51 when John retires at 57 after 30 years and three months of creditable service. The table below shows how much John and Pam would receive monthly under each payment option.

| Payment Option | To John | → | To Pam After John's Death |
|--------------------------|---|---|---------------------------|
| Maximum Allowance | \$2,000 monthly | | \$0.00 |
| Option 2 | \$1,834.60 monthly | | \$1,834.60 monthly |
| Option 3 | \$1,913.80 monthly | | \$956.90 monthly |
| Option 4* | \$2,650.90 monthly up to age 62, \$1,650.90 monthly thereafter | | \$0.00 |
| Option 6-2 | \$1,822.60 monthly; if Pam dies before John, he receives \$2,000 monthly thereafter | | \$1,822.60 |
| Option 6-3 | \$1,907.20 monthly; if Pam dies before John, he receives \$2,000 monthly thereafter | | \$953.60 monthly |

*Assumes John's primary Social Security benefit is \$1,000 a month at age 62.

These are only examples. Your own benefit is calculated individually and the actual amounts of your payment options are based on many factors, such as your age, your beneficiary's age and when payments start.

Section 6: Adding to Your Creditable Service

Your benefit at retirement is based, in part, on your creditable service. Creditable service includes your years and months of membership service in which you contributed to TSERS. Creditable service may also include sick leave credit, military service credit and certain types of purchased service credit, which are described below.

• Sick Leave

Unused sick leave, including eligible sick leave converted from excess vacation, can be converted to additional retirement service credit at the time of your retirement if all of the following conditions are met:

- Your sick leave was earned under a duly adopted sick leave policy.
- You would receive full salary when using the sick leave if absent from work because of illness.
- You have not, and will not, receive any compensation for this sick leave.
- Your last day of service with your last participating TSERS employer is within five years before your TSERS effective date of retirement.

When you retire, you are allowed one month of credit for each 20 days of unused sick leave. For any part of 20 days left over, one additional month is allowed provided the remaining portion is at least one hour.

A sick leave “day” is determined by your employer’s sick leave accrual policy and may or may not be equal to eight hours. For example, assume John Smith earns one day of sick leave per month under his employer’s sick leave accrual policy while working an extended shift of 12 hours per day, and he accrues 12 hours of sick leave each month. When his employer certifies his unused



sick leave on his retirement application (Form 6), for each 12 hours of eligible unused sick leave, his employer should report one day of unused sick leave, rather than 1.5 days.

In another example, assume Mary Brown earns one day of sick leave per month while working 7.5 hours per day and accrues 7.5 hours of sick leave each month. When her employer certifies her unused sick leave on her Form 6, for each 7.5 hours of eligible unused sick leave, her employer should report one day of unused sick leave.

Sick leave is used to increase your creditable service, but it cannot be used to meet the minimum qualifications for a deferred benefit or the Survivor’s Alternate Benefit. You may use your sick leave to complete 30 years of service regardless of age, 25 years of service after age 60, and 20 years of service after age 50. Sick leave does not count toward eligibility for State Health Plan coverage under the Retirement Systems.

Section 6: Adding to Your Creditable Service

• Military Service

Your periods of active duty in the U.S. military up to the time you were first eligible for a discharge that is not dishonorable count as creditable service at no cost to you if you were a teacher or state employee when you entered active duty and you returned to TSERS employment under one of the following circumstances:

- Within two years after your earliest discharge date.
- At any time after your discharge and you complete at least 10 years of additional service as a contributing member.

Your TSERS employer is required to pay the employer and employee contributions for the full period you were in active duty if you were a TSERS member immediately before your active-duty military service, and you return to TSERS membership service within two years after your military discharge date.

If you are ineligible for free credit under these rules, you may be eligible to buy credit for your first period plus later required periods of active duty by making a lump-sum payment.

To be eligible to purchase military service credit, you must have contributed to TSERS for five years. Your cost will be equal to the full actuarial liabilities created from the additional credit purchased.

If your military service is creditable in another retirement system, generally you will not be eligible to purchase credit in TSERS.

• Withdrawn Service

If you have ever received a refund of your contributions from TSERS, LGERS or the former Law Enforcement Officers' Retirement System, you may be eligible to purchase, with a lump-sum payment, in TSERS, the amount of creditable service you lost when you received your refund.

Before you are eligible to pay for this service, you must be rehired and contribute to TSERS for five years or have a combination of five years of current membership service in CJRS, LRS, LGERS, or TSERS.

Your cost, which must be paid in a lump sum, will be equal to the amount of contributions withdrawn plus interest at 6.5 percent compounded annually from the year of withdrawal to the year of repayment. In addition, you will pay a \$25 administrative fee.



Section 6: Adding to Your Creditable Service



- **Purchasing Other Withdrawn Service**

If you ever received a refund of your contributions from CJRS, LRS or LGERS, you may be eligible to make a lump-sum payment to purchase the amount of withdrawn creditable service in the system from which it was withdrawn.

Before you are eligible to pay for this service, you must have five years of current membership service in TSERS or in CJRS, LRS or LGERS, or have a combination of five years of membership service in any of these systems. This type of purchased service may be used to determine your eligibility for benefits in TSERS. However, only your creditable service in TSERS will be used in computing the amount of your TSERS benefit. Creditable service in any other system will be used to compute benefits from that system.

Eligible withdrawn service you purchase in LGERS or TSERS counts as creditable service, not membership service. TSERS withdrawn service purchased in TSERS does not count toward the five-year membership service requirement for eligibility for coverage under the State Health Plan as a TSERS retiree.

Your cost, which must be paid in a lump sum, will be calculated using the withdrawn service purchase provisions in the system from which you are purchasing the service credit.

- **Other Types of Service Purchases**

In addition to withdrawn service and military service purchases, you may be eligible to purchase credit for the following types of service:

- Out-of-State Service
- Temporary Local and State Service
- Educational Leave
- Probationary or Waiting Period Service
- Workers' Compensation Leave
- Part-Time Local and State Service
- Service with a Local Government
- Service with the Federal Government
- Federally-funded Public Community Service in North Carolina
- Omitted Service
- Service as a Member of a Charter School
- Withdrawn University of North Carolina Optional Retirement Program Service
- Extended Illness Leave
- Parental Leave

For detailed information about the eligibility requirements for purchasing creditable service, please see the applicable purchase form found in the forms section of ORBIT.

- **Rollovers to Purchase Retirement Credit**

We will accept pre-tax money from an eligible retirement plan or an eligible IRA via rollover or in-service, plan-to-plan transfer to purchase creditable service. For more information and instructions, see Form 398 (*Using a Distribution of Tax-Sheltered Savings to Purchase Retirement Credit*), available in ORBIT.

Section 7: Death Benefits

Active Employee Death Benefits

Although TSERS' primary purpose is to provide retirement income, we recognize that some employees will not live to enjoy their retirement benefits. For that reason, TSERS protects your beneficiary(ies) should you die before retiring with the death benefits described below.

- **Return of Contributions**

After your death, your beneficiary will receive a return of your contributions plus interest at four percent compounded annually on your prior-year ending balance, through your date of death. This is a lump-sum payment. If you meet certain eligibility requirements, a monthly Survivor's Alternate Benefit may be paid to your beneficiary instead of a return of contributions if you have only one eligible beneficiary living at the time of your death.

- **Survivor's Alternate Benefit**

Provided you have not retired, the monthly Survivor's Alternate Benefit may be payable if you have only one eligible beneficiary for the return of your contributions living at the time of your death and you die while in active service or within 180 days of your last day of service after meeting one of the following conditions:

- You complete 20 years of creditable service (not including credit for unused sick leave) regardless of age.
- You reach age 60 with five years of membership service.

If you do not meet one of these two conditions, your beneficiary(ies) will be able to receive only a return of your contributions.

The Survivor's Alternate Benefit does not apply if you have two or more eligible principal beneficiaries for the return of contributions living at the time of your death, if your estate or living trust is your eligible beneficiary at the time of your death, or if you have retired.

This lifetime monthly benefit equals the amount you would have been entitled to receive under Option 2 had you survived and retired on the first of the month following your death.

- **Lump-Sum Death Benefit for Active Employees**

If you die while still in active service after one year as a contributing member, your beneficiary will receive a lump-sum payment equal to your highest salary for 12 consecutive months during the 24 months before you die. The lump-sum payment will be at least \$25,000 but no more than \$50,000 and is also paid if you die within 180 days of your last day of service provided you have not withdrawn your contributions. The death benefit is in addition to any other benefits to which your beneficiary(ies) may be entitled. For this death benefit, you may name the same or a different beneficiary(ies) than the one(s) you named to receive the return of contributions.

Section 7: Death Benefits

If you are a state or local law enforcement officer killed in the line of duty, your beneficiary also may be entitled to a \$50,000 line-of-duty death benefit. This lump sum benefit is administered jointly by the North Carolina Industrial Commission and the Department of State Treasurer.

Retiree Death Benefits

If you die within 180 days of your last day of service, and meet all eligibility requirements, the lump-sum death benefit for active employees described above will be payable. Other retiree death benefits may also be payable as described below.

- **Guaranteed Refund**

You are automatically eligible for the Guaranteed Refund when you choose a payment option. Under the Guaranteed Refund provision, if you and your monthly survivor beneficiary (if any) both die before the total of all monthly payments equals the amount of your contributions and interest, the balance of your contributions and interest will be paid in one lump sum to another beneficiary(ies).

The Guaranteed Refund also covers any purchases you made for additional creditable service after retirement. You may name one or more beneficiaries for the Guaranteed Refund, and you may change your beneficiary selection(s) as often as you like. However, the beneficiary you choose for the Guaranteed Refund cannot be the same as your monthly survivor beneficiary.

- **Optional \$10,000 Contributory Death Benefit**

When you retire, we will mail you a Form 333 (*Choosing the Contributory Death Benefit for Retired Members*). To enroll, you must make your election within 60 days of the effective date of your retirement. If you enrolled in the optional

\$10,000 Contributory Death Benefit for Retired Members and your death occurs on or after the first day of the month following the 24th month of coverage, a lump-sum payment of \$10,000 will be paid to your designated beneficiary(ies). If no beneficiary has been designated, the benefit will be paid to your spouse, or legal representative if you are not survived by a spouse. If your death occurs before the first day of the month following the 24th month of coverage, the amount payable will be equal to your premiums plus interest.

- **Continuation of Monthly Benefits under Survivor Options**

When you choose benefit your payment option, if you choose one of the survivor options (Options 2, 3, 6-2 and 6-3), your survivor beneficiary will receive a monthly lifetime benefit after your death.

NOTE: During the month a retiree or beneficiary dies, the legal representative of the deceased retiree or beneficiary is entitled to a full check for the month the death occurred. It is a Class 1 Misdemeanor for a person to fraudulently receive the retirement benefit of a deceased retiree or beneficiary after the recipient's death.



Section 8: Initiating Your Retirement Benefits

Once you decide to retire and meet the eligibility requirements for monthly benefits, you must follow certain steps to begin your retirement process.

To be legally retired, you must end your employment, live until your effective date of retirement and generally not perform any work for a TSERS employer at any time during the six months immediately following your effective date of retirement (except as a school board member, a member of a board of trustees of a community college or of any constituent institution of the University of North Carolina, or an unpaid bona fide volunteer).

Generally, if you die before your effective retirement date, your beneficiary is ineligible for a monthly retirement allowance, based on your retirement account, except as provided under the Survivor's Alternate Benefit. All other benefits and a return of contributions will be paid to your eligible beneficiary(ies).

Retirement Application Process

Before you begin the retirement process, we encourage you to discuss your retirement plans with your family and your employer's benefits coordinator.

About 120 to 90 days before your planned retirement date, complete Form 6 (*Claiming Your Monthly Retirement Benefit*), available from your employer or in ORBIT. The form has additional detailed information about the retirement process.

If you contribute to TSERS during the six months before your effective date of retirement (or you are currently out of service, but your last day of service with your last participating TSERS employer is within five years before your effective date of retirement, and you had unused sick leave), your employer should complete the employer certification section (Section H) on your Form 6 before the form is sent to us.



If you want an estimate of your benefit under Option 4, you must also send us an estimate from the Social Security Administration (SSA) of your age 62 Social Security benefit. Request this estimate from SSA within two years before your effective retirement date.

Monthly retirement benefits are effective the first day of any month. You must sign, date and file your retirement application (Form 6) at least one day and not more than 120 days before your effective date of retirement.

Once we receive your Form 6, we will send you an acknowledgment letter that includes instructions about the next steps in the retirement process. We will also send you:

- Form 170 (*Authorizing Direct Deposit*)
- Form 290 (*Choosing Income Tax Withholding Preferences*)

Section 8: Initiating Your Retirement Benefits

- Form 333 (*Choosing the Contributory Death Benefit for Retired Members*), which includes information about the cost and coverage provisions of the optional \$10,000 Contributory Death Benefit for Retired Members. To enroll, you must make your election within 60 days of the effective date of your retirement.

Later, we will send you an estimate of the maximum allowance and the other payment options, if applicable. Along with the estimate, you will receive:

- Form 6E (*Choosing Your Retirement Payment Option*)
- Form 333BEN (*Designating Beneficiary(ies) for the Contributory Death Benefit for Retired Members*)

We will also send you information about enrollment in the the State Health Plan under the Retirement Systems.

Your First Monthly Benefit

Your first monthly retirement benefit will be mailed to you. Thereafter, we will direct deposit your monthly benefit into your bank account on the 25th day of each month. In December, your benefit will be deposited on the 20th. If the pay date falls on a Saturday, Sunday or holiday, your deposit will be



made on the last work day before the pay date. Direct deposit is fast, automatic and free.

The Retirement Systems Division calculates your monthly benefit amount based on all information available prior to your retirement date. Frequently, information available only after the retirement date, such as final salary reports from your employer, impacts the amount of the benefit. While the division makes every effort to provide the most accurate benefit amount at the beginning of your retirement period, it is required by law to adjust the benefit amount when additional information is received.

Overpayments happen for a variety of reasons, one of which is that the Retirement Systems pays you a benefit based on an estimate. [See page 33](#) for more information about overpayments.

Post-Retirement Increases

Post-retirement increases are not guaranteed. However, your benefit may be increased periodically after retirement to help you keep up with the cost of living. Increases depend on changes in the Consumer Price Index and the availability of funds.

Cost-of-living increases are usually figured as a percentage increase in your monthly benefit, which becomes a permanent part of your monthly benefit, under all payment options, and the monthly benefit to be paid to your beneficiary after your death under Options 2, 3, 6-2, and 6-3. ([See page 17](#) regarding increases under Option 4.)

For more information about Cost of Living Adjustments (COLAs) and how they are calculated and approved, visit www.mynretirement.com.

Section 9: NC 401(k), NC 457 and 403(b)

Are you starting to think about how to generate retirement income from your NC Total Retirement Plans 401(k), 457 Plans or NC 403(b) supplement savings? Your account savings can help in *many* ways.

- **Get the big picture.** Learn more about your retirement resources and benefits by viewing your *myNC* Retirement Statement in [ORBIT](#) (formerly known as Annual Benefits Statement).
- **Consider making a one-time contribution to the plan(s).** You can contribute additional compensation or payouts on a one-time basis, such as longevity, vacation and/or bonus leave payments. For more information, refer to our [One-time Contribution Flyer](#) found on [NCPlans.prudential.com](#).
- **Roll over money into your plan account from another qualified retirement plan.** As long as you have a balance in the plan(s), you can roll money into your NC 401(k) and/or NC 457 Plan account. To learn more, check out our [Rollover Brochure](#) at [NCPlans.prudential.com](#). Consider these advantages:

| | Consolidated into NC 401(k)/NC 457/NC 403(b) | Multiple Accounts |
|---|--|-------------------|
| Money remains tax deferred | ✓ | ✓ |
| Avoid taxes and penalties | ✓ | ✓ |
| Convenience | ✓ | |
| Lower Costs | ✓ | |
| Easier to maintain proper asset allocation: access to GoalMaker | ✓ | |
| Strong oversight of fund managers and fees from the Supplemental Retirement Board of Trustees | ✓ | |
| Additional fees | ✓ | ✓ |

Be careful!
Others may encourage you to roll your balance out, but if you do, you will likely pay much higher fees and lose the high-quality features and strong oversight of the Supplemental Retirement Plan Board of Trustees.

- **Meet for personal, confidential help.** Find your NC Total Retirement Plans retirement education counselor by calling 1-866-NCPlans or visit [NCPlans.prudential.com](#).
- **Consider the [Transfer Benefit](#), also known as NC Lifetime Income.** This allows you to make a one-time transfer of any portion of your eligible contributions, not including Roth contributions and earnings, from your NC 401(k) and/or NC 457 Plan to TSERS and receive the balance as monthly income. There are many factors you should consider before taking advantage of this option – **This benefit may not be for everyone.** Visit the Transfer Benefit Estimator in ORBIT and [www.NCLifetimeIncome.org](#) for more information. There is a one-time fee of \$100 for this option.

Section 10: Income Tax



Since July 1, 1982, your contributions have been tax-deferred. This means your contributions are deducted from your pay before taxes are calculated, and you pay taxes on them when you begin receiving monthly retirement benefits or if you elect a refund of your contributions. The following is a brief outline of current tax laws as they apply to TSERS benefits. However, because tax laws often change, we recommend you consult your tax advisor for more details.

Retirement and Disability Retirement Benefits

After you retire, each year by January 31 we will send you a Form 1099-R, which is similar to Form W-2 (*Statement of Income and Tax Withheld*), which you received annually while you were employed. The 1099-R shows the amount of your retirement benefits, the taxable portion (if any) of those benefits, the amount of tax withheld (if any), and other related information. We also send copies to the Internal Revenue Service and the North Carolina Department of Revenue. Therefore, you should report your retirement benefits on your federal and North Carolina tax returns regardless of whether you owe any income tax.

- **Federal Income Tax**

Part of your retirement benefit may not be subject to federal income tax because the tax was withheld while you were working. Included in the non-taxable part of your retirement benefits are contributions you made before July 1, 1982, and any non-rollover service purchases you made.

- **North Carolina Income Tax**

If you are a North Carolina resident and have maintained five or more years of retirement service credit as of August 12, 1989, your TSERS retirement benefit is not subject to North Carolina income tax. If you do not have five years of maintained retirement service credit as of August 12, 1989, the taxable portion of your retirement benefit is subject to North Carolina income tax.

If you are not a resident of North Carolina, you may not owe North Carolina income tax on your TSERS retirement benefit. However, you may owe state income tax in the state where you live. Contact your tax advisor, the North Carolina Department of Revenue or the Department of Revenue in your resident state for information relative to your situation. NC Retirement Systems can withhold only North Carolina income tax. We cannot withhold any other state's income tax from your monthly benefit.

Guaranteed Refunds and Return of Contributions

By January 31 of the year after the year you received a refund, we will send you a Form 1099-R showing the amount of your refund, the taxable portion, the amount of tax withheld (if any), and other related information. We will also send copies to the Internal Revenue Service and North Carolina Department of Revenue.

Section 10: Income Tax



- **Federal Income Tax**

You pay no federal income tax on after-tax purchases of service or on the amount you contributed before July 1, 1982. However, the amount you contribute after July 1, 1982, is subject to federal income tax. Also, any interest your contributions earned before and after July 1, 1982, is subject to federal income tax.

Federal income tax laws require withholding from the taxable portion of your refund unless that portion of your refund is directly rolled over to an eligible IRA or eligible employer retirement plan that will accept your rollover. If you do not roll over the taxable portion of your refund directly to an eligible IRA or eligible employer plan that will accept your rollover, we will withhold 20 percent of the taxable portion of your refund for federal income tax purposes. Withholding is mandatory unless the taxable portion of your refund is directly rolled over.

In addition to income tax, you may owe a 10 percent excise tax on the taxable portion of a refund received before your death, disability or reaching age 59½. You can defer the income tax

and avoid the 10 percent excise tax by rolling over the taxable portion of your refund to an eligible IRA or eligible employer plan. Consult the Internal Revenue Service, your attorney or your accountant for information relative to your situation.

- **North Carolina Income Tax**

If you are a North Carolina resident and have maintained five or more years of retirement service credit as of August 12, 1989, your refund of TSERS contributions is not subject to North Carolina income tax. If you do not have five years of maintained retirement service credit as of August 12, 1989, the taxable portion of your refund is subject to having four percent withheld for North Carolina income tax.

Active Death Benefits and Contributory Death Benefits

Generally, your beneficiary pays no income tax on the lump-sum death benefit for active employees or the \$10,000 Contributory Death Benefit for Retirees, which are treated as life insurance benefits for tax purposes.

Section 11: Health Coverage in Retirement

State Health Plan

You are eligible for coverage under the Retirement Systems for the State Health Plan if you contributed to TSERS for at least five years (excluding credit for unused sick leave or credit transferred from LGERS) while employed as a teacher or state employee. The cost, if any, is determined by two factors: (1) when you began state employment, and (2) which health plan you select.

TSERS withdrawn service you purchased in TSERS does not count toward the five-year membership service requirement for State Health Plan coverage under the Retirement Systems.

Under current law, if you were first hired before October 1, 2006, and retire with five or more years of TSERS membership service, the state will pay for your individual coverage under the non-contributory plan at retirement (currently 70/30 Plan or Medicare Advantage Base Plan).

Based on the conditions described above, if you were first hired on or after October 1, 2006, in order to receive the Retirement Systems portion paid for, you must retire with 20 or more years of retirement service credit. If you have 10, but less than 20, years of retirement service credit, you will have to pay 50 percent of the cost for your coverage. If you have five but less than 10 years, you will have to pay the full cost for your coverage, including the Retirement Systems portion.

In all cases, if you choose coverage for your dependents, you must pay the full cost of dependent coverage.

For additional information, see "[Guidance on State Health Plan Changes for Teachers' and State Employees' Retirement System.](#)" on our website.

Your coverage begins on the first day of the month following your effective date of retirement. For example, if your effective date of retirement is January 1, 2018, your coverage in the retiree group plan will begin on February 1, 2018.

When you (or your covered dependents) become eligible for Medicare, you must elect both Parts A (Hospital) and B (Medical) in order to maintain the same level of coverage you received before retirement.

Optional Supplemental Insurance

Optional supplemental insurance coverage is available to retirees and benefit recipients through Pierce Insurance Agency. Pierce will mail information to you after your first retirement benefit has been issued.



Section 12: Returning to Work After Retirement

If you work in any capacity for an employer under TSERS after you have officially retired and are receiving monthly benefits, you will be subject to the return-to-work provisions described below. These provisions may limit your earnings or require you to re-enroll as a contributing member of TSERS.

You will be subject to return-to-work provisions based on the nature of the particular work you perform for a TSERS employer, regardless of your job classification or your technical employment status (which may include being assigned to work for a TSERS employer by a private company such as a temporary staffing agency). As an active TSERS employee, you may not establish an agreement for post-retirement employment with a TSERS employer.



The Required Six-Month Break Guidelines

During the six months immediately following your retirement date, to avoid a financial penalty, you cannot work for a TSERS employer in any capacity, except as one of the following:

- A school board member
- A member of a board of trustees of a community college or of any constituent institution of the University of North Carolina
- An unpaid bona fide volunteer guardian ad litem in the guardian ad litem program
- An unpaid bona fide volunteer, performing service in a position in which any individual performing that type of service would not be paid. You will be subject to a penalty if other individuals performing that type of service are typically paid.

Six-Month Break in Service Required

In order for your retirement to be effective, you must perform no work for a TSERS employer including part-time, temporary, substitute or contractor work at any time during the **six months immediately** following the effective date.

If you return to work before the required six-month break, then you will be required to pay an amount that is calculated based on one of the following conditions:

- You will be deemed to have retired the month after the month you performed services for the TSERS employer and repay all retirement benefits received until that date (the new retirement date must be after you have satisfied a six-month break in service); **or**
- You will be required to make a lump sum payment to TSERS equal to three times the compensation earned during the six-month period immediately following the effective date of your retirement.

You will be required to pay the lesser of these two amounts as determined by the Retirement System.

Section 12: Returning to Work After Retirement



If you return to work for a TSERS employer in a position that requires TSERS membership during the six months im-

mediately following your retirement date, your TSERS benefits will be cancelled retroactively to your retirement date, and you must repay all retirement benefits received and the cost of state-provided State Health Plan premiums since your retirement date.

If your retirement benefit is cancelled, your State Health Plan coverage will also be cancelled.

Working After a Six-Month Break With a TSERS Membership

After the required six-month break, you may return to work in a position that requires membership in TSERS. Your retirement benefit will be suspended on the first day of the month following the month of your reemployment, and you will again become a contributing TSERS member in the month in which you are restored to membership service. (Your TSERS retirement benefit will also be suspended if you return to membership service under CJRS.)

If you return to service and contribute to TSERS for at least three additional years, at the time you end your second period of employment, you can choose one of the following options for your benefit:

- You can combine your service from your first and second periods of employment to create one monthly retirement benefit. You can change the retirement payment plan and/or

beneficiary you selected at the time of your original retirement. If you selected Option 4 for first retirement, we must actuarially adjust benefits when you retire again.

- You can re-instate your first retirement account and withdraw your contributions only from your second account.

If you return to service and contribute to TSERS for less than three additional years, at the time you end your second period of employment, your first retirement benefit will be re-instated. You can choose one of the following options for your second retirement account:

- You can apply to receive a second monthly benefit based on your second period of employment.
- You can withdraw your contributions from your second account.
- You can leave your second account open.

Working After a Six-Month Break Without TSERS Membership

After the required six-month break, if you return to work with a TSERS employer in a position that is not eligible for TSERS membership, your earnings will be restricted to the greater of the following:

- \$32,940 (2018 amount)
- 50 percent of your gross 12-month pre-retirement salary (excluding termination payments)

The dollar figure is adjusted annually according to the Consumer Price Index. These earnings restrictions apply for the 12 months immediately following your retirement and for each calendar year following the year of retirement.

Section 12: Returning to Work After Retirement

Exceeding Your Earnings Limitations

If you exceed your earnings limitations, your retirement benefit will be suspended on the first day of the month following the month in which you exceeded the limit for the remainder of the calendar year. Your retirement payment will start again on January 1 of the year after your benefit is suspended. If your earnings exceed the allowable amount in the month of December, your benefit will not be suspended.

If your retirement benefit is suspended, your State Health Plan coverage under the Retirement Systems will also be suspended. If your benefit is suspended and later reinstated, your State Health Plan coverage will also be reinstated retroactively.

When your retirement benefit is restored, your health coverage under the Retirement Systems will be reinstated on the first of the month following the month your retirement benefit is restored.

After Receiving Disability

If you are in receipt of a monthly disability benefit from TSERS, and accept public or private employment, contact our office for information on provisions that apply to you. For additional information, please see the Disability section on our website at www.MyNCRetirement.com.

Overpayments

An overpayment of benefits means you are receiving a larger benefit than you are entitled to receive. Statutory provisions require us to recover overpayments. This includes, but is not limited to, the following methods of recovery:

- Deductions from a monthly benefit
- Monthly payment remittal

- Lump-sum payments
- Repayment from the NC Department of Revenue through the interception of tax refunds or potential lottery winnings
- Deductions from an active payroll check (*if applicable*)

Effects on Health Coverage

Before you accept reemployment with a TSERS employer, ask your new employer whether the employment will affect your health plan coverage, and if the reemployment will cause:

- Your State Health Plan coverage under the Retirement Systems to be suspended.
- You to qualify for State Health Plan active group coverage and whether you will qualify for the state's contribution toward your coverage.

Under the Legislative or Consolidated Judicial Systems

If you are a TSERS retiree who is re-employed under CJRS, a CJRS retiree re-employed under TSERS, or an LRS retiree re-employed under TSERS, return-to-work laws may require a suspension of benefits or may limit the amount you can earn without penalty. Please contact the North Carolina Total Retirement Plans for information on provisions that apply to you.

Section 13: Disability Benefits

Disability Income Plan of North Carolina (DIPNC)

If you become disabled while serving as a permanent employee under TSERS or the Optional Retirement Program (ORP), and you meet certain eligibility requirements, DIPNC provides you with monthly replacement income in the form of short-term, extended short-term and long-term disability benefits. Your employer pays for your DIPNC coverage.

For more information on DIPNC benefits, see the Disability Income Plan of North Carolina Benefits Handbook on our website at www.MyNCRetirement.com. The handbook includes examples of how DIPNC benefits are calculated and describes how to apply for benefits. It also explains required offsets for other disability benefits, excess earnings offsets, health coverage, Medical Board reexamination, income tax, beneficiary payments if you die while receiving DIPNC benefits and when you convert to a service retirement benefit.

TSERS Disability Retirement Benefits

If you earned and maintained five or more years of membership service with TSERS before January 1, 1988, you may be eligible to receive disability retirement benefits instead of DIPNC benefits. Your eligibility is based upon approval by the Medical Review Board and is based in part on the amount of service that you would have earned had you been able to work until you otherwise would have been eligible for an unreduced service retirement benefit. If you earned and maintained five or more years of membership service with TSERS before July 1, 1982, you may be eligible to receive disability retirement benefits instead of DIPNC benefits based in part on the amount of service that you would have earned had you been able to work until age 65.



In either case, if you earned and maintained five or more years of membership service with TSERS before January 1, 1988, and subsequently become disabled, as approved by the Medical Review Board, you may elect either to receive DIPNC benefits or TSERS disability retirement benefits.

If you earned and maintained five or more years of membership service with TSERS before January 1, 1988, and became disabled on or prior to the last day worked or exhaustion of leave and you have been approved for TSERS Disability Retirement by the Department of State Treasurer's Medical Board, you are eligible for State Health Plan coverage and the State will pay the Retirement Systems' share of the premium.

If you are eligible for and you elect to receive disability retirement benefits, your benefit under the Maximum Allowance will be calculated using the same formula as a service retirement benefit. Under disability retirement, you may choose any payment option except Option 4. If you choose a survivorship option, it will be calculated using disability reduction percentages.

Section 14: Administration and Funding

- **Administration**

TSERS is administered by the Board of Trustees, whose members are:

State Treasurer Dale R. Folwell, CPA, Chair
 Lentz Brewer
 John Ebbighausen
 Vernon Gammon
 Dick German
 Barbara Gibson
 Linda Gunter
 Oliver Holley
 Mark Johnson
 Greg Patterson
 Margaret Reader
 Joshua Smith
 Jeffrey Winstead

- **Assets**

The State Treasurer is the custodian of TSERS assets and serves as the Chief Investment Officer.

Equity assets (e.g., common stock, preferred stock and debentures convertible into common stock) are invested in conjunction with policies adopted by the Investment Advisory Committee. Committee members are:

State Treasurer Dale R. Folwell, CPA, Chair
 John Aneralla
 Lentz Brewer
 David Hartzell
 Steve Jones
 Michael Mebane
 Greg Patterson

Disability Determination

The Medical Review Board determines eligibility for disability benefits. Board members are:

Dr. Robert H. Fleming
 Dr. Robert Gaddy
 Dr. Stephen N. Lang
 Dr. Bobby Sellers
 Dr. Nathaniel L. Sparrow

Section 14: Administration and Funding

• Future of the System

The state expects to continue the Teachers' and State Employees' Retirement System indefinitely; however, because future conditions are unforeseeable, the North Carolina General Assembly reserves the right to modify the provisions of the system.

• System Documents

This handbook summarizes the main features of the Teachers' and State Employees' Retirement System of North Carolina. The official text governing the operations of the system and the payment of all benefits is found in [Chapter 135 of the General Statutes](#) and [Title 20 of the North Carolina Administrative Code](#).

• Contributions

Members currently contribute six percent of gross salary each month to TSERS.

From July 1, 2017, to June 30, 2018, employers contribute 17.13 percent of the gross payroll of members each month to TSERS for benefits.

• Funded Status & Ratio

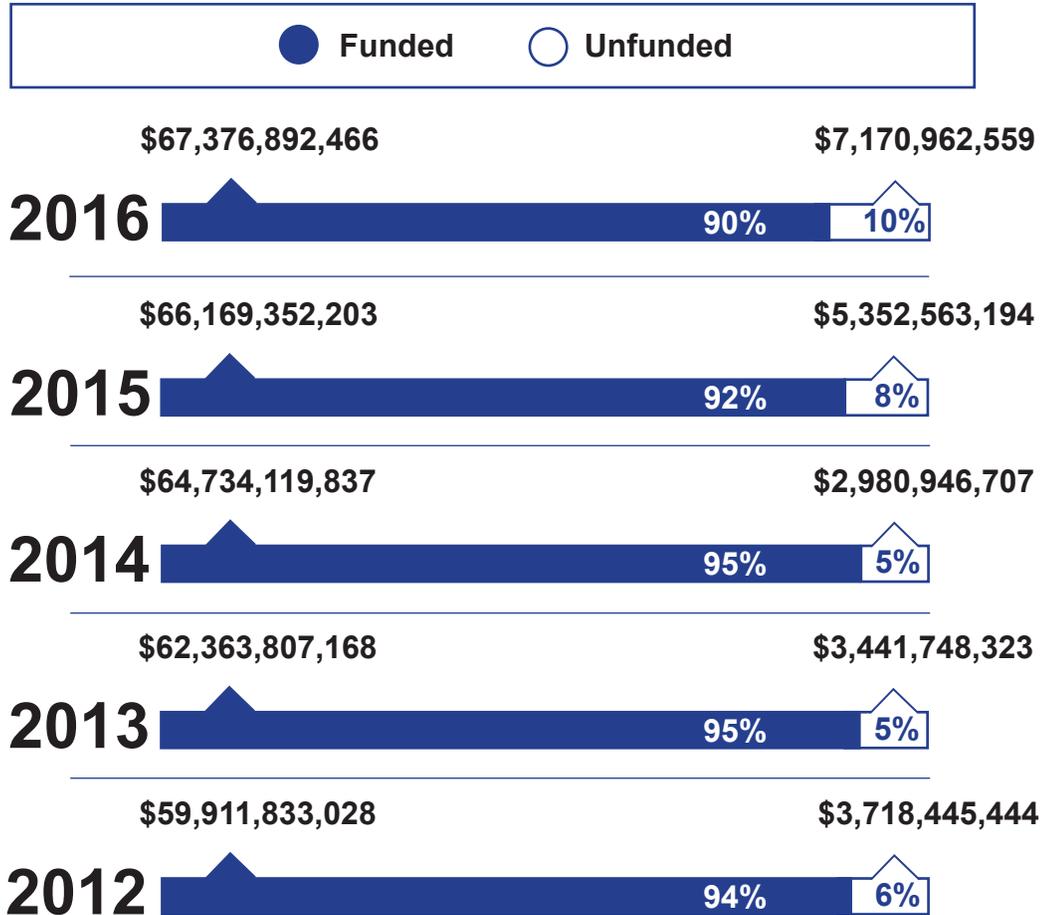
The Teachers' and State Employees' Retirement System has received several awards and recognitions for being a well-funded pension system. S&P Global named the NC Total Retirement Plans as one of the Top 5 Best Funded in the country in 2017. We continue to be labeled as "actuarially sound" because of the consistent use over the years of:

- Actuarial assumptions based on experience
- An approved actuarial funding method
- The recognition of all promised benefits in the actuarial liabilities

A generally accepted measure of the soundness of any retirement system is to relate the total assets to the total accrued liabilities. This determines the funded ratio or percentage of the system. The total of the accrued liabilities is found by adding the total assets and the unfunded accrued liabilities. The following page shows the assets and unfunded liabilities for the past several years, as of December 31 of each year, and the funded ratio of the Teachers' and State Employees' Retirement System (the percentage of the assets to the total accrued liabilities).

Section 14: Administration and Funding

Accrued Liabilities



Section 15: Resources and Contacts



The North Carolina Department of State Treasurer created ORBIT to allow members convenient access to their retirement account information 24 hours a day, seven days a week. This secure site enables you to view your personal information, account information and other relevant details specific to your retirement system account.

In ORBIT, active employees are able to view:

- Contribution history
- Service credit history
- Retirement estimates
- Designate beneficiaries
- Service purchase cost estimates
- NC 401(k)/NC 457 Plan Transfer Benefit estimates
- Annual Benefit Statements (now known as *myNCRetirement* Statements)

Retirees are able to:

- Maintain direct deposit
- Maintain tax withholdings
- View and download 1099-R tax forms
- Generate income verification letters
- Update their contact information

To access ORBIT, go to our website at www.MyNCRetirement.com, click on the ORBIT icon and follow the instructions to log in to your personal ORBIT account.

1. Register for ORBIT via the Register button on the login page
2. Follow the prompts for registration
3. Access ORBIT using the User ID and Password that you created

Section 15: Resources and Contacts

Web-Based Resources

 www.MyNCRetirement.com

Visit our website to:

- View and download retirement benefits handbooks
- See Frequently Asked Questions
- Learn about North Carolina Total Retirement Plans – NC 401(k) and NC 457 Plans, and NC 403(b) Program
- Review the retirement checklist
- Use our service purchase estimator
- Use our benefit estimators
- Learn about retirement planning resources
- Log into your personal ORBIT account

Contact Us



Toll-free 1-877-627-3287 (1-877-NCSECURE)
Fraud and Abuse Hotline 1-855-903-7283
retfraud@nctreasurer.com



Teachers' and State Employees' Retirement System
Department of State Treasurer
3200 Atlantic Avenue
Raleigh, North Carolina 27604

Office visits scheduled by appointment only. Please call or email our office to schedule an appointment.



nc.retirement@nctreasurer.com



<https://www.facebook.com/MyNCRetirement>

Section 16: Glossary of Terms

Actuary: A business professional with expertise in the fields of economics, statistics and mathematics who compiles and analyzes statistics in order to calculate financial risks and reserves.

Average final compensation: The average of your salary during your four highest-paid years in a row.

CJRS: Consolidated Judicial Retirement System

Consumer Price Index: A national measure of increase in the cost-of-living from one year to the next.

Creditable service: The total of all service credit that counts toward retirement.

DIPNC: Disability Income Plan of North Carolina

LGERS: Local Governmental Employees' Retirement System

LRS: Legislative Retirement System

Membership service: Service you earned while an active employee contributing to TSERS that has not been withdrawn.

ORBIT: The secure website for maintaining your retirement account

Overpayment: Payment to a benefit recipient in excess of what the benefit recipient is entitled to receive

TSERS: Teachers' and State Employees' Retirement System

Vesting: Having the right, after you have a minimum of five years of TSERS membership service, to apply for lifetime monthly retirement benefits once you meet all retirement eligibility requirements, provided you do not withdraw your contributions.