

History of the North Carolina Retirement System

IMPORTANT DATES:

- 1939 – Local Governmental Employees’ Retirement System established. The System framework was in place, however, the System did not begin acquiring members until 1945.
- 1940 – July 1: Law Enforcement Officers’ Benefit and Retirement Fund established.
- 1941 – July 1: Teachers’ and State Employees’ Retirement System established
- 1945 – Local Governmental Employees’ Retirement System begins gaining members and is put into action
- 1951 – July 16: State employees join Social Security, starting the Public Employees’ Social Security Agency
- 1959 – Firemen’s and Rescue Squad Workers’ Retirement Fund established
- 1960s – Teachers’ and State Employees’ Retirement System and Local Governmental Employees’ Retirement System converted from what was internally called a Money Purchase Plan (which is similar to the cash balance plans of today) to a traditional Defined Benefit formula that was integrated with Social Security.
- 1973 – General Assembly suggests Office of State Treasurer take over Law Enforcement Officers’ Benefit and Retirement Fund; however, this does not happen until twelve years later.
- 1974 – Deferred Compensation Plan (457) Established
- 1975 – July 1: Teachers’ and State Employees’ Retirement System formula changed to a flat accrual rate, not integrated with Social Security
- 1976 – July 1: Local Governmental Employees’ Retirement System formula changed to a flat accrual rate, not integrated with Social Security
- 1979 – July 1: National Guard Pension Plan put into effect
- 1980 – January 1: Teachers’ and State Employees’ Benefit Trust established
- 1985 – January 1: Consolidated Judicial Retirement System established
 - State Law Enforcement Officers absorbed into Teachers’ and State Employees’ Retirement Fund
 - NC 401(k) put into effect
- 1986 – Local Law Enforcement Officers included in Local Governmental Employees’ Retirement System
- 1987 – October 1: Register of Deeds’ Supplemental Pension Plan established as a supplement to registers of deeds who retired with the Local Governmental Employees’ Retirement System.
- 1988 – January 1: Disability Income Plan for teachers and state employees who participate with the Teachers’ and State Employees’ Retirement System put into effect.

The North Carolina Retirement Systems Division was established in 1941, with parts of the division under the management of the State Auditor and State Treasurer. Prior to the establishment of the North Carolina Retirement Systems Division, the only pension system that was established in the state was for Confederate soldiers.¹ The first pension law went into effect in 1885 and granted a pension of \$30 annually to Confederate veterans who were unable to work due to the loss of an eye, leg, or arm.² These benefits were also available to soldiers' widows as long as they did not remarry.³ The system expanded later in 1885 to include widows or soldiers who had died of disease while in active service.⁴ In 1866, the pension system began to include those who had obtained a prosthetic limb out of their own funds or those who had limbs that were no longer functional, but still attached.⁵ By 1901 the pension became available to all widows, soldiers, and sailors who were unable to perform manual labor due to injuries sustained while serving on behalf of the State of North Carolina or the Confederate States of America.⁶ The 1901 pension system was designated as follows: first class: totally disabled and entitled to \$72 annually; second class: lost leg or arm and entitled to \$60 annually; third class: lost a hand or foot and entitled to \$48 per year; fourth class: widows, those who had lost an eye, and those who were disabled due to other wounds not classified in the prior categories. This group was entitled to \$30 annually.⁷ In 1927, pensioners were again reclassified to include slaves that had been servants to soldiers or slaves that had served in a role for soldier support.⁸ Today, public pensions have expanded to include many more North Carolinians under the management of the Office of State Treasurer.

The North Carolina State Treasurer is a position that is speculated to have been created during the colonial period, more specifically within the years of 1711-1713 at the time of the Tuscarora War.⁹ During this early period, the duties of the treasurer are presumed to have been to collect taxes and cover military expenses.¹⁰ Over the centuries the job of the state treasurer expanded to include collecting all public monies, keeping track of all deposits and withdrawals made to the state's bank accounts, to borrow funds in a time of emergency, among other things.¹¹ In 1943 the state treasurer's ex officio duties expanded to include working with state agencies dealing with taxes, banking, housing, the financing of hospitals, as well as agencies involved with employee benefit

¹ *Pension Bureau: Act of 1885 Pension Applications; North Carolina State Archives;*
http://mars.ah.dcr.state.nc.us/logicrouter/servlet/LogicRouter?OUTPUTXSL=ahviewscope.xml&pm_RC=R EPOSRPDB&pm_OI=5&api_1=GET_OBJECT_XML&num_hier=h1.6

² *Ibid*

³ *Ibid*

⁴ *Ibid*

⁵ *Ibid*

⁶ *Ibid*

⁷ *Ibid*

⁸ *Ibid*

⁹ *State Treasurer Records Group; State Records collection from NC State Archives;*
http://mars.ah.dcr.state.nc.us/logicrouter/servlet/LogicRouter?OUTPUTXSL=ahviewscope.xml&pm_RC=R EPOSRADB&pm_OI=12785&api_1=GET_OBJECT_XML&num_hier=h1.6

¹⁰ *Ibid*

¹¹ *Ibid*

plans, specifically the North Carolina Teachers' and State Employees' Retirement System that was established on July 1, 1941.¹²

At this time, the state auditor was also involved with employee benefit programs. In 1939, the state auditor became the chairperson on the board of trustees for the Law Enforcement Officers' Benefit and Retirement Fund whose actual date of establishment was July 1, 1940.¹³ The state auditor also administered the Firemen's Pension Fund which was created in 1959.¹⁴ This fund was created for certified firemen only, but expanded to include rescue squad workers on January 1, 1982 along with both volunteer and paid employees.¹⁵ As a result of this addition, the fund was to be renamed as the Firemen's and Rescue Squad Workers' Pension Fund in 1981.¹⁶ In 1973 the General Assembly recommended that the Law Enforcement Officers' Benefit and Retirement Fund become the responsibility of the Office of State Treasurer in the Division of Employees' Retirement and Health Benefits, but this recommendation was not realized until 1985, also when the Division of Employees' Retirement and Health Benefits became known as the Retirement Systems Division.¹⁷ In 1991 the General Assembly moved the Firemen's and Rescue Squad Workers' Pension Fund to the Department of State Treasurer to also be managed by the Retirement Systems Division.¹⁸

Today, the N.C. Retirement System is the 17th largest retirement system in the United States, and the 11th largest public system in terms of assets according to the January 21, 2008 issue of *Pensions & Investments* magazine. Currently, the System is comprised of four major systems including the Teachers' and State Employees' Retirement System (TSERS), Local Governmental Employees' Retirement System (LGERS), Consolidated Judicial Retirement System (CJRS), and Legislative Retirement System (LRS). Along with the four major systems, the Retirement Systems Division is also responsible for:

- Firemen's and Rescue Squad Workers' Pension Plan
- Public Employees' Social Security Agency
- Disability Income Plan
- Legislative Retirement Fund
- National Guard Pension Plan
- Teachers' and State Employees' Benefit Trust
- Supplemental Retirement Income Plan [401(k)]
- Public Employee Deferred Compensation Plan (457)

¹² *State Treasurer Records Group; State Records collection from NC State Archives;*

http://mars.ah.dcr.state.nc.us/logicrouter/servlet/LogicRouter?OUTPUTXSL=ahviewscope.xml&pm_RC=R EPOSRADB&pm_OI=12785&api_1=GET_OBJECT_XML&num_hier=h1.6

¹³ *State Auditor Record Group; State Records collection from NC State Archives;*

http://mars.ah.dcr.state.nc.us/logicrouter/servlet/LogicRouter?OUTPUTXSL=ahviewscope.xml&pm_RC=R EPOSRPDB&pm_OI=4&api_1=GET_OBJECT_XML&num_hier=h1.6

¹⁴ *State Treasurer's 1996-1997 Annual Report*

¹⁵ *Ibid*

¹⁶ *State Treasurer Records Group; State Records collection from NC State Archives;*

http://mars.ah.dcr.state.nc.us/logicrouter/servlet/LogicRouter?OUTPUTXSL=ahviewscope.xml&pm_RC=R EPOSRADB&pm_OI=12785&api_1=GET_OBJECT_XML&num_hier=h1.6

¹⁷ *Ibid*

¹⁸ *Ibid*

- Register of Deeds' Supplemental Pension Plan
- Contributory Death Benefit for Retired Members

The System is divided up into sections that include Retirements Processing, Death, Disability, and Refunds Processing, Accounting/Data Management, Member Services, and Records. All sections operate using a web-based administrative system that is called by the acronym "ORBIT", which stands for Online Retirement Benefits through Integrated Technology. This technology allows all of the sections within the Retirement System to share information and also enables members to access and maintain their account information. Before modern day technologies, such as ORBIT, most processes in the Retirement Systems Division were done on paper. The Division began using computers in the 1960s, but did not start relying on computers to aid in business functions until the Mainframe era of the 1970's and 80's.

The Retirement Systems Division's systems have historically resembled a defined benefit plan, although not always in the traditional sense. From the establishment of the retirement system in 1941 up until 1963, the Division's benefit plans were similar to the cash balance plans of today, and were known internally as Money Purchase Plans. After 1963 the Division converted the Money Purchase Plan to a traditional defined benefit plan that is funded through member and employer contributions, along with investment returns. In addition, the Teachers' and State Employees' Retirement System and Local Governmental Employees' Retirement System joined Social Security in 1951, which led to the creation of the Public Employees' Social Security Agency.¹⁹ This agency acted as a liaison between the Social Security Administration and the State, allowing the Administration to provide the mechanics necessary for coverage in the State and its qualified political subdivisions.²⁰

Aside from defined benefit plans, the state of North Carolina also offers two types of defined contribution plans. The first is the NC 401(k), which is known as the Supplemental Retirement Income Plan of North Carolina, and the North Carolina Public Employee Deferred Compensation Plan (457). The NC 401(k) became effective as of January 1, 1985.²¹ This program is managed jointly between the State Treasurer and a Board of Trustees that consists of the Board of Trustees from the Teachers' and State Employees' Retirement System and the Local Governmental Employees' Retirement System.²² Most members voluntarily elect to participate in the NC 401(k), although some local governments do provide a fixed employer contribution (G.S. 135-90; 135-91). The second type of defined contribution plan is the North Carolina Public Employee Deferred Compensation Plan (457). This plan began in 1974 as a tax-deferred savings and investment program and was located within the Department of Administration until 2006, when it was then transferred by the General Assembly to the Department of State Treasurer.²³ Like the 401(k), the Deferred Compensation Plan was designed to

¹⁹ Information provided by David Vanderweide, Policy Director, NC Retirement System

²⁰ State Treasurer's 2006-2007 Annual Report

²¹ State Treasurer's 1996-1997 Annual Report

²² Ibid

²³ State Treasurer's 1996-1997 Annual Report and email conversation with Director, Michael Williamson, 7/10/2008

supplement members' income during retirement and was based on voluntary enrollment. This plan is also governed by a Board of Trustees, with the State Treasurer as the chairperson of the board.²⁴

SYSTEMS

The Teachers' and State Employees' Retirement System (TSERS) was established on July 1, 1941 with members to include all individuals that were employed as educators or state employees on the above date (G.S. 135-5). In 1947, members were required to wait 90 days after employment, election, or appointment as a teacher or state employee before becoming a member within the retirement system, but this was reversed on July 1, 1955 where all teachers or state employees immediately became a member of the retirement system (G.S. 135-5 (1)). As of July 1, 1971 to the present, members can only terminate their membership if they withdraw all of their accumulated contributions, become a beneficiary, or die (G.S. 135-5(3)). Previously, membership was terminated after the absence of monthly contributions for 5 to 7 years. Members of this system are also provided with the Disability Income Plan to replace income for eligible teachers and state employees who have become temporarily or permanently disabled and unable to perform at their current occupation.²⁵ In addition to the disability plan, members of the Teachers' and State Employees' Retirement System, and also the Local Governmental Employees' Retirement System, are also eligible to participate in the Teachers' and State Employees' Benefit Trust that was started January 1, 1980.²⁶ This trust provides members of both groups with life insurance benefits.²⁷

The Teachers' and State Employees' Retirement System is administered by the Board of Trustees, who are responsible for the proper operation of the System. The Board of Trustees includes 14 members total. These members include the State Treasurer, Superintendent of Public Instruction, ten members appointed by the Governor, and two members appointed by the General Assembly. This Board also designates a medical board of three to five medical doctors to examine applications for retirement due to disability. Legal advice is obtained from the Attorney General, along with financial and technical advice that is gathered from a Board appointed actuary (G.S. 135-6).

The Local Governmental Employee's Retirement System (LGERS) is run much like the state retirement system. The local system began in 1945 with eighteen participating local governments and 2,102 members.²⁸ As of December 2006 there were 124,844 active members and 872 participating cities, towns, counties, and local commissions.²⁹ Later, on January 1, 1985, the Consolidated Judicial Retirement System of North Carolina (CJRS) was established, and the Legislative Retirement System (LRS) being created by the 1985 session of the General Assembly.³⁰ The Consolidated Judicial

²⁴ *State Treasurer's 1996-1997 Annual Report*

²⁵ *Ibid*

²⁶ *Ibid*

²⁷ *Ibid*

²⁸ *State Treasurer's 2006-2007 Annual Report*

²⁹ *Ibid*

³⁰ *Ibid*

Retirement System was created for the purpose of providing retirement allowances and other benefits to judges, justices, district attorneys, public defenders, and clerks of the superior court (G.S. 135-54), and the Legislative Retirement System created for all past and present members of the General Assembly. The Legislative Retirement Fund, which is not operated as a retirement fund but under the management of the NC Retirement System, was created in 1969 and abolished in 1974.³¹ This fund only applies to former members of the General Assembly who qualified for benefits as of 1974.³²

Law Enforcement Officers have their own line of history in regards to retirement benefits, which was previously known as the Law Enforcement Officers Benefit and Retirement Fund. This fund was established on July 1, 1940 and was originally set up to provide state law enforcement officers with a retirement pension program, a source of disability income, and to provide benefits to survivors in the event of a death. This fund was originally split into two sections: the Retirement Fund, which was responsible for retirement and disability benefits, and the Separate Benefit Fund, which handled survivor's benefits. The fund was administered by the Department of State Auditor and the responsibility of making provisions for the fund was given to a board of commissioners. The board consisted of seven members, including the state auditor, state treasurer, the state insurance commissioner, and four members appointed by the Governor.³³

Membership included all law enforcement officers who did not contribute to either state or local retirement systems. Probation officers and custodial staff for the NC Department of Corrections were ineligible for membership.³⁴ Members were required to contribute 5% of their monthly income to the fund, and if the person elected to contribute less then they must continue to contribute at the lower rate.³⁵ From the time of establishment up through 1975, law enforcement officers were eligible to retire once they had reached the age of 50 or had at least 15 years of creditable service as a law enforcement officer, or able to retire at age 55 with at least five years of creditable service as a law enforcement officer.³⁶ The Retirement Fund was funded through "amounts received from court costs as provided under the Retirement Law, by the contributions of members and by appropriations from the general fund and the Highway Fund of the state".³⁷ Those who were designated as a beneficiary upon the death of a law enforcement officer received a lump sum of \$5,000 if the officer was in active duty and \$3,000 if the officer was retired.³⁸

State law enforcement officers were adopted into the State retirement system on January 1, 1985 and local law enforcement officers were adopted into the local retirement system on January 1, 1986. Currently law enforcement officers are eligible to retire at any age after 30 years of creditable service, between the ages of 50 and 55 with 15 years of

³¹ *State Treasurer's 2006-2007 Annual Report*

³² *Ibid*

³³ *Information in entire paragraph gathered from Rules and Regulations of the Law Enforcement Officers' Benefit and Retirement Fund, 1975*

³⁴ *Ibid*

³⁵ *Ibid*

³⁶ *Ibid*

³⁷ *Ibid*

³⁸ *Ibid*

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creditable service as a law enforcement officer and before the completion of 30 years of creditable service, and at age 55 with at least 5 years of creditable service as a law enforcement officer (G.S. 135-5).

The following is a complete list of North Carolina treasurers:

Treasurer	Terms	
	Began	Ended
Memucan Hunt	1784	1787
John Haywood	1787	1827
John S. Haywood	-	-
William S. Robards	1827	1830
Robert H. Burton	-	-
William S. Mhoon	1830	1835
Samuel F. Patterson	1835	1837
Daniel W. Courts	1837	1839
Charles L. Hinton	1839	1843
John W. Wheeler	1843	1845
Charles L. Hinton	1845	1851
Daniel W. Courts	1851	1863
Jonathan Worth	1863	1865
Jonathan Worth (Provisional)	June 12, 1865	Nov. 16, 1865
William Sloan	Nov. 16, 1865	Jan. 1, 1866
Kemp P. Battle	Jan. 1, 1866	July 8, 1868
David A. Jenkins	July 8, 1868	Nov. 22, 1876
John M. Worth	Nov. 22, 1876	Jan. 21, 1885
Donald W. Bain	Jan. 21, 1885	Nov. 16, 1892
Samuel McDowell Tate	Nov. 16, 1892	Jan. 23, 1895
William H. Worth	Jan. 23, 1895	Jan. 15, 1901
Benjamin R. Lacy	Jan. 15, 1901	Feb. 23, 1929
Nathan O'Berry	Feb. 23, 1929	Jan. 7, 1932
John P. Stedman	Jan. 7, 1932	Nov. 21, 1932
Charles M. Johnson	Nov. 21, 1932	Jan. 6, 1949
Brandon P. Hodges	Jan. 6, 1949	July 20, 1953
Edwin M. Gill	July 20, 1953	Jan. 8, 1977
Harlan E. Boyles	Jan. 8, 1977	Jan. 1, 2001
Richard H. Moore	Jan. 2, 2001	Current Treasurer

***Note:** There were a number of Treasurers appointed to serve the various districts within North Carolina between 1777 and 1784. The first singular Treasurer to be appointed to serve the entire state was Memucan Hunt and his term began in 1784

Table obtained from the North Carolina Department of State Treasurer website
<http://www.nctreasurer.com/DSTHome/OfficeOfTheTreasurer/History/>

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The following is a list of all directors of the Retirement Systems Division and their tenures:³⁹

Baxter Durham	April 1, 1941 – October 31, 1945
Nathan H. Yelton	November 1, 1945 – September 30, 1968
Charles B. Martin	October 1, 1968 – October 31, 1968
J. Everett Miller	November 1, 1968 – June 30, 1973
William H. Hambleton	July 1, 1973 – October 31, 1978
Edwin T. Barnes	November 1, 1978 – August 31, 1990
Dennis D. Ducker	September 1, 1990 – September 30, 1997
Jack W. Pruitt	October 1, 1997 – February 28, 2001
Michael Williamson	March 19, 2001 – present

³⁹ *Information provided by current director, Michael Williamson, 6/19/08*