LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

YOUR RETIREMENT BENEFITS

Member Handbook

North Carolina Retirement Systems
Department of State Treasurer
Raleigh, NC
Revised January 2015

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
RETIREMENT SYSTEMS DIVISION

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Welcome to the North Carolina Retirement Systems!

The Department of State Treasurer, which administers the retirement systems for state and local government employees, is committed to providing you with information to help you make informed decisions about your financial future. I encourage you to become familiar with the benefits outlined in this booklet that are available to you as a member of the Local Governmental Employees' Retirement System (LGERS).

Many financial experts suggest that individuals will need a monthly income in retirement equal to 80% of their pre-retirement pay. When planning for a secure retirement, I encourage you to consider not only your LGERS benefits, but also your Social Security benefits and your personal savings (including saving through the NC 401(k) and NC 457 Plans).

I also encourage you to visit our website, www.myncretirement.com, for retirement resources, and to register on ORBIT, your safe and secure online access to your personal retirement account information. You can also contact the North Carolina Retirement Systems if you have additional questions. Our customer service representatives can assist with the status of an application or answer questions about retirement, disability and death benefits.

Thank you for your service to North Carolina.

Sincerely,

Janet Cowell

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Table of Contents

Contents	Page
Section 1: About Your Retirement System	**4**
Section 2: Membership in LGERS	**5**
Section 3: Qualifying for Benefits	**6**
Vesting	6
Service Retirement (Unreduced Benefits)	6
Early Retirement (Reduced Benefits)	6
Vested Deferred Benefit	6
Disability Retirement	7
Refund of Contributions	7
Reciprocity Between Retirement Systems	8
Transferring Service & Contributions Between Systems	8
Section 4: How Your Benefit is Calculated	**9**
Retirement Formula	9
Service Retirement Calculation Example	9
Early Retirement Calculation Example	10
Early Retirement Reduction Percentages	11
Examples of Monthly Benefits Paid	12
Benefit Limitations	12
Section 5: Your Benefit Payment Options	**13**
Example of Payment Options	16
Section 6: Adding to Your Creditable Service	**17**

Contents	Page
Section 7: Death Benefits	**21**
Active Employee Death Benefits	21
Retiree Death Benefits	22
Section 8: Initiating Your Retirement Benefits	**23**
Retirement Application Process	23
Your First Monthly Benefit	24
Optional Supplemental Insurance	24
Post-Retirement Increases	24
Section 9: NC 401(k) and NC 457 Transfer Benefit	**25**
Section 10: Income Tax	**26**
Retirement Benefits	26
Refunds	27
Death Benefits	28
Section 11: Returning to Work After Retirement	**29**
Section 12: Administration & Funding	**31**
Section 13: Resources and Contacts	**34**
ORBIT	34
Resources	35
Contact Us	35
Section 14: Glossary of Terms	**36**

DISCLAIMER: The availability and amount of all benefits you might be eligible to receive is governed by Retirement System law. The information provided in this handbook cannot alter, modify or otherwise change the controlling Retirement System 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 Retirement System law, Retirement System law governs.

Section 1: About Your Retirement System

You and your employer share the cost of providing your LGERS benefits.

The Local Governmental Employees' Retirement System (LGERS) 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 LGERS benefit eligibility requirements and the formula used to calculate benefits. Terms and phrases in **bold type** are defined in Section 14 – Glossary of Terms.

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

Your share of the cost is currently 6% of your compensation, and 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 your employer.

Your employer's share of the cost is based on calculations prepared by an **actuary.**

Beginning July 1, 1982, if your employer adopted a resolution to have your contributions made on a before-tax basis, 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. Thus, 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 26-28 for more information about your tax liability on benefits.

Contributions to LGERS 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.

View your account information and download forms in ORBIT.

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, 7 days a week. To log into 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 34 for more information about ORBIT.

Section 2: Membership in LGERS

Membership in LGERS is automatic for eligible employees.

You become an LGERS member on your hire date if (or after a required local unit waiting period) if you are employed by a participating unit in a regular position that requires 1,000 hours or more of service per year.

A participating unit is any county, city, town or other local government that has agreed to participate in LGERS.

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

To designate beneficiaries, complete Forms 2RC and 2DB found in ORBIT.

- **Designating Beneficiaries**

  After your employer enrolls you in LGERS, you should name beneficiary(ies) to receive a return of your retirement contributions and, if applicable, a death benefit, should you die before retirement. To designate beneficiaries, complete:

  - Form 2RC (Designating Beneficiary(ies) for Retirement System Return of Contributions)
  - Form 2DB (Designating Beneficiary(ies) for the Death Benefit)

- **Forfeiting Eligibility for Criminal Offenses**

  Effective July 1, 2007, elected government officials will forfeit their right to a monthly benefit from LGERS if convicted of certain state or federal offenses involving public corruption.

  Effective December 1, 2012, if you <u>were not</u> vested as of December 1, 2012, and are convicted of a state or federal felony directly related to your employment while in service under LGERS, you are prohibited from receiving any retirement benefit other than a return of your contributions plus interest. If you <u>were</u> vested as of December 1, 2002, 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 LGERS once you have completed a minimum of 5 years of creditable 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.

Service Retirement (Unreduced Benefits)

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

- reach age 65 and complete 5 years of creditable 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 (age 55 if you are a firefighter or rescue squad worker) and complete 5 years of creditable 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 on page 11 show the effects these reductions would have on your benefit.

Vested Deferred Benefit

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

You may be entitled to apply to receive a deferred benefit at a later date once you meet eligibility requirements after you have completed 5 years of creditable 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.

Disability Retirement

You become eligible to apply for disability retirement benefits after 5 years of creditable service if you become totally and permanently disabled for your job, as approved by the Medical Review Board. If you are a firefighter or rescue squad worker who becomes disabled as a result of a "line-of-duty injury," you are eligible to apply for disability retirement regardless of the amount of your creditable service.

Your disability benefit under the Maximum Allowance is calculated using the same formula as a service retirement benefit and you may choose any payment option except Option 4. See pages 13-16 for descriptions of retirement payment plans. If you choose a survivorship option, it will be calculated using disability reduction percentages.

Your average final compensation is calculated as of your disability retirement date, but creditable service is counted as though you continue working to the earliest date you would have qualified for an unreduced service retirement allowance, whether it be age 65, or with 30 years of service, or age 60 with 25 years of service.

If you die after you have filed an application for disability retirement but before its effective date, and you have otherwise met all requirements for disability retirement benefits, your beneficiary may elect to receive a monthly retirement allowance provided by Option 2, instead of a return of your retirement contributions and interest, provided the following conditions apply:

- you have only one eligible beneficiary for the return of contributions living at the time of your death
- you have not indicated to the Retirement System, in writing, that you did not want your beneficiary to have this choice of receiving a retirement allowance provided by Option 2

Please visit our website at www.myncretirement.com for additional information about disability benefits and the required forms.

Refund of Contributions

If you leave LGERS before you have 5 years of creditable service, the only payment you can receive is a refund of your contributions and interest.

To receive a refund, complete Form 5, found in ORBIT.

State law prohibits us from making a refund earlier than 60 days after you leave covered employment. Once you receive a refund of your contributions, you waive any rights to your former employer's contributions or any other benefit from LGERS.

Set by state law, the interest credited on your contributions and paid with a refund is 4% compounded annually on your prior-year ending balance.

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

Reciprocity Between Retirement Systems

Credit in other North Carolina Retirement Systems may be counted along with your LGERS credit to determine retirement eligibility.

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

- Legislative (LRS)
- Consolidated Judicial (CJRS)
- Teachers' and State Employees' Retirement System

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

Transferring Service & Contributions Between Systems

You can transfer your contributions and creditable service between LGERS and TSERS 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).

To request a Form 5TR, please contact our office.

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.

Section 4: How Your Benefit is Calculated

Retirement Formula

Your annual benefit =

1.85% of average final compensation

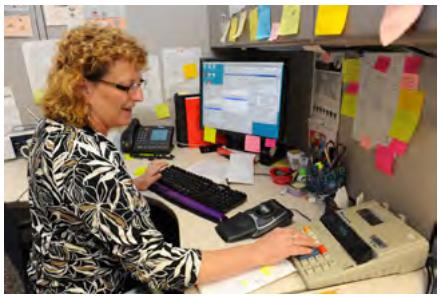
X

years and months of creditable service

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 during which you contribute to LGERS, 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 17-20 for more details.

Service Retirement Calculation Example



Assume employee Mary Benson retires at age 60 with 32 years and 2 months of creditable service and an average final compensation of $32,300. Because Mary has more than 30 years of creditable service at retirement, she receives her basic benefit of about $19,221 a year (about $1,601 monthly) for the rest of her life under the maximum allowance. Monthly payments would stop at her death. In addition, Mary may also be eligible for Social Security benefits as early as age 62.

You can create your own retirement estimate by logging into your personal ORBIT account.

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

At Service Retirement	Mary	You
Step 1 Add your salary during your 4 highest-paid years in a row.	$30,600 31,700 32,900 + 34,000 $129,200	$ _____ $
Step 2 Divide Step 1 by 4 to get average final compensation.	$32,300	$ _____
Step 3 Multiply Step 2 by .0185 to apply formula.	$32,300 x .0185 $597.55	$ x .0185 $
Step 4 Determine creditable service (see pages 17-20).	32.1667 years	
Step 5 Multiply Step 3 by Step 4 to determine your annual retirement benefit.	$597.55 x 32.1667 $19,221.21	$ x _____ $
Step 6 Divide Step 5 by 12 to get monthly maximum allowance.	$1,601.77	$

Early Retirement Calculation Example

Assume employee Fred Wise retires at age 61 with 24 years and 3 months of creditable service and an average final compensation of $32,300.

Here is how we calculate his benefit:

$	32,300	(average final compensation)
x	.0185	
$	597.55	
x	24.25	(creditable service)
$	14, 490.59	

Now apply the early retirement reduction percentage from the chart on page 11.

$	14,490.59	
x	.88	(percentage at age 61)
$	12,751.72	

Early retirement benefits are 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.

Fred receives a benefit under the maximum allowance of about $12,751 a year (about $1,062 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 $11,592 a year (about $966 a month). His payment will start at age 59 and continue for the rest of his life. In addition, Fred may also be eligible for Social Security benefits as early as age 62.

Early Retirement Reduction Percentages

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 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 birthdays when payments start, the reduction will be adjusted proportionately.

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

	Creditable Service									
Age	29	28	27	26	25	24	23	22	21	20
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%

Examples of Benefits Paid

The following chart shows the approximate monthly benefit paid under the maximum allowance 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.

Monthly Retirement Benefit Under Maximum Allowance					
Age	50	55	60	N/A	N/A
Service	20	28	25	30	40
Average Final Compensation					
$80,000	$1,233	$3,108	$3,083	$3,700	$4,933
70,000	1,079	2,719	2,697	3,237	4,316
60,000	925	2,331	2,312	2,775	3,700
55,000	847	2,136	2,119	2,543	3,391
50,000	770	1,942	1,927	2,312	3,083
45,000	693	1,748	1,734	2,081	2,775
40,000	616	1,554	1,541	1,850	2,466
35,000	539	1,359	1,348	1,618	2,158
30,000	462	1,165	1,156	1,387	1,850
25,000	385	971	963	1,156	1,541

Benefit Limitations

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

- **Contribution-Based Benefit Cap**

  If you retire on and after January 1, 2015, with an average final compensation (AFC) of $100,000 or higher, you may fall under a contribution-based benefit cap. This cap was created to control the practice of "pension spiking," in which your compensation significantly increases in your 4-year AFC period to create a benefit which is significantly greater than the contributions paid by you and your employer would fund. If your retirement allowance has been capped and is subject to an adjustment, LGERS will notify you and 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 before January 1, 2015, your last employer will be required to pay the additional amount. 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 may choose either to pay the amount or you may accept a benefit reduced to the benefit cap.

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

  If you are a highly compensated employee (i.e., generally earning more than $180,000 annually) who retires on and after January 1, 2015, your LGERS benefits may be subject to the IRS section 415(b) annual pension benefit limit. Please see the fact sheet on our website for more information.

Section 5: Your Benefit Payment Options

At retirement, you must elect one of the payment options described below. 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.

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

Choose your payment option carefully; you can change it only under specific circumstances.

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.

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 LGERS and contribute to your new account for at least 3 years

All payment options include the Guaranteed Refund.

Your retirement benefit comes with a Guaranteed Refund. This means that should 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 this beneficiary(ies) as often as you like. However, the beneficiary you choose for the Guaranteed Refund cannot be the same as your monthly survivor beneficiary.

The Maximum Allowance and Option 4 provide monthly benefits that stop at your death, with no monthly survivor beneficiary.

- **Maximum Allowance**

When you retire with a service retirement benefit, your basic benefit is the maximum allowance and is calculated under the formula on page 9. 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.

Options 2, 3, 6-2, and 6-3 provide a monthly benefit to your survivor beneficiary after 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
  - After you die, 1/2 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 following 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 LGERS 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. Therefore, on average, the inflated amounts you receive before age 62, together with the reduced amounts you receive after age 62, are equal in value to the other payment options over your life expectancy.

Contact the Social Security Administration for information on applying for benefits and the date that your first age 62 Social Security benefit will be paid to you. Your LGERS benefit under Option 4 will be reduced in the month following the month of initial entitlement for Social Security age 62 benefits.

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.

- **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, 1/2 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

You can change your monthly survivor beneficiary under Options 2, 3, 6-2, and 6-3 only under specific circumstances.

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 LGERS and contribute to a new retirement account for at least 3 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. You must file this redesignation with LGERS 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.

Example of Payment Options

Assume John Murphy has earned a service retirement benefit under the maximum allowance of $1,000 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.

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.

Payment Option	To John	To Pam After John's Death
Maximum Allowance	$1,000 monthly	$0.00
Option 2	$889.70 monthly	$889.70 monthly
Option 3	$941.60 monthly	$470.80 monthly
Option 4*	$1,402.84 up to age 62, $767.84 thereafter	$0.00
Option 6-2	$882.60 monthly; if Pam dies before John, he receives $1,000 monthly thereafter	$882.60
Option 6-3	$937.70 monthly; if Pam dies before John, he receives $1,000 monthly thereafter	$468.85

*Assumes John's primary Social Security benefit is $635 a month at age 62.

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 LGERS and may also include prior service credit, sick leave credit, military service credit, and certain types of purchased service credit, which are described below.

- **Prior Service**

  If you were employed by your employer before its participation in LGERS, you may have received credit for your service before you became a member.

- **Sick Leave**

  Unused sick leave 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 LGERS employer is within 365 days before your LGERS effective date of retirement

  When you retire, you are allowed 1 month of credit for each 20 days of unused sick leave. For any part of 20 days left over, 1 additional month is allowed provided the remaining portion is at least 1 hour.

  A sick leave "day" is determined by your employer's sick leave accrual policy and may or may not be equal to 8 hours. For example, assume John Smith earns 1 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 1 day of unused sick leave, rather than 1.5 days. In another example, assume Mary Brown earns 1 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 1 day of unused sick leave.

On your retirement application (Form 6), your last employer will certify the amount of your unused sick leave.

Sick leave is used to increase your creditable service, but it cannot be used to meet the minimum qualifications for a disability retirement benefit or deferred benefit. You may use your sick leave to complete 30 years of service regardless of age, 25 years of service after age 60, 20 years of service after age 50, and 5 years of service at or after age 60.

- **Military Service**

You may receive retirement credit for up to 5 years of qualifying military service at no cost if you were an eligible LGERS member when you entered the military, and:

- you returned to employment for 10 or more years with the same LGERS employer after discharge from the military, or
- you returned to LGERS membership service within the time limit mandated by federal law for reporting back to work and meet all of the following requirements:
  - you did not provide written notice of intent not to return to work after military service
  - you are not eligible for benefits from any other retirement plan based on this service
  - you purchased your LGERS withdrawn service credit, if any

Your LGERS employer is required to pay the employer contributions to LGERS for the full period of your military service under the above provisions if you return to work within 2 years after your earliest 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 LGERS for 5 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 LGERS.

To purchase retirement service credit, you will need to complete the appropriate purchase form found in ORBIT.

- **Withdrawn Service**

  If you have ever received a refund of your contributions from LGERS, TSERS, or the former Law Enforcement Officers' Retirement System, you may be eligible to purchase, with a lump-sum payment, in LGERS 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 LGERS for 5 years or have a combination of 5 years of current membership service in CJRS, LRS, TSERS, or LGERS.

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

- **Purchasing Other Withdrawn Service**

  If you ever received a refund of your contributions from CJRS, LRS, or TSERS, 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 5 years of current membership service in LGERS or in CJRS, LRS, or TSERS, or have a combination of 5 years of membership service in any of these Systems. This type of purchased service may be used to determine your eligibility for benefits in LGERS. However, only your creditable service in LGERS will be used in computing the amount of your LGERS 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.

  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
- Local Probationary or Waiting Period Service
- Workers' Compensation Leave
- Part-Time Local and State Service
- Other Service with a Local Government
- Service with the Federal Government
- Federally-funded Public Community Service in NC
- Omitted Service

For detailed information about the eligibility requirements for purchasing creditable service, please see the applicable purchase form in 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 further information and instructions, see Form 398 (Using a Distribution of Tax-Sheltered Savings to Purchase Retirement Credit), available in ORBIT.

You may roll over funds from other eligible retirement plans or IRAs to purchase credible service.

Section 7: Death Benefits

As an active employee, keep your beneficiary designations up to date using Form 2RC and 2DB found in ORBIT.

Active Employee Death Benefits

Although LGERS' primary purpose is to provide retirement income, we recognize that some employees will not live to enjoy their retirement benefits. For that reason, LGERS 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 4% 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.

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

  If your employer elected this coverage, and you die while still in active service after 1 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. 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.

- **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 5 years of creditable service
  - You complete 15 years of creditable service as a firefighter or rescue squad worker if killed in the line of duty

  This eligible beneficiary may choose to receive a lifetime monthly Survivor's Alternate Benefit instead of a return of your contributions.

The Survivor's Alternate Benefit does not apply if you have 2 or more eligible beneficiaries for the return of contributions living at the time of your death, or 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.

If you do not want your beneficiary to receive the Survivor's Alternate Benefit, you must notify the Retirement System in writing.

Retiree Death Benefits

If your employer elected the lump-sum death benefit for active employees described on page 21, and you die within 180 days of your last day of service and meet all eligibility requirements, this benefit will be payable. Other retiree death benefits may also be payable as described below.

As a retiree, you may change your Guaranteed Refund beneficiary by completing a Form 336 found in ORBIT.

- **Guaranteed Refund**

  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 is provided under each retirement payment option.

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

  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.

You may change your Contributory Death Benefit beneficiary by completing Form 333BEN found in ORBIT.

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

  If you elected 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.

  It is a Class 1 Misdemeanor to fraudulently receive the retirement benefit of a deceased retiree or beneficiary for two months or longer 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 an LGERS employer at any time during the month of your effective date of retirement.

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.

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.

Monthly retirement benefits are effective the first day of any month. You must sign, date, and file your retirement application (Form 6) at least 1 day and not more than 120 days before your effective date of retirement.

Begin the retirement process 120-90 days before your planned retirement date.

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 LGERS during the 6 months before your effective date of retirement (or you are currently out of service, but your last day of service with your last participating LGERS employer is within 365 days 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 2 years before your effective retirement date.

Your benefit cannot be paid until we receive a properly completed Form 6E.

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

- Form 170 (Authorizing Direct Deposit)
- 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.
- Form 333BEN (Designating Beneficiary(ies) for the Contributory Death Benefit for Retired Members)

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 290 (Choosing Income Tax Withholding Preferences)
- Form 336 (Designating Beneficiary(ies) for the Guaranteed Refund as a Retiree)

Your First Monthly Benefit

Your first benefit payment will be mailed; thereafter, directly deposted into your bank account.

Your first monthly retirement benefit will be mailed to you. Thereafter, our policy is to directly 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.

Optional Supplemental Insurance

For information about optional supplemental insurance available through Pierce Insurance Agency, visit www.ncretiree.com or contact Pierce at 1-855-627-3847.

Optional supplemental insurance coverage, including vision, dental, accident, and term and whole life insurance, 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.

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 plans, and the monthly benefit to be paid to your beneficiary after your death under Options 2, 3, 6-2, and 6-3. (See page 15 regarding increases under Option 4.)

Section 9: NC 401(k)/NC 457 Transfer Benefit

For information about the supplemental retirement plans, visit the NC Total Retirement Plans page on our website.

At or following retirement, you can make a one-time transfer of any portion of your eligible contributions, not including Roth contributions and earnings, from your NC 401(k) Plan and/or NC 457 Plan to LGERS and receive an additional monthly lifetime benefit. Once transferred, the decision is irrevocable, and you cannot access the funds except as the monthly benefit withdrawal.

Allowances are available both with and without cost-of-living increases. There is a one-time fee of $100. Visit www.myncretirement.com for additional information about the Transfer Benefit. You will also find a Transfer Benefit Estimator and the required forms in ORBIT.

Section 10: Income Tax

Beginning July 1, 1982, if your employer adopted a resolution to have your contribution made as a before-tax basis, 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 LGERS benefits. However, because tax laws often change, we recommend you consult your tax advisor for more details.

Retirement Benefits

After you retire, each year by January 31 we will send you 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.

The Retirement System will mail you a 1099-R each year after retirement.

- **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 the date your employer adopted a tax sheltering resolution (if they have done so), and any non-rollover service purchases you made.

  All or part of your retirement benefit may be subject to federal income tax because it was not previously taxed. Included in the taxable part of your retirement benefits are contributions you made after the date your employer adopted a tax sheltering resolution (if they have done so), any rollover service purchases, and all benefits paid from the employer contributions and investment earnings.

  Under federal law, the majority of each retirement benefit is subject to federal income tax. Although you will not pay taxes again on any contributions for which you have already paid tax, you may exclude only a small portion of your previously taxed contributions each month throughout a period of time specified by the federal government.

- **North Carolina Income Tax**

If you are a North Carolina resident and have maintained 5 or more years of retirement service credit as of August 12, 1989, your LGERS retirement benefit is not subject to North Carolina income tax. If you do not have 5 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 LGERS 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.

Refunds

By January 31 of the year following the year you received a refund, we will send you 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.

A 1099-R will be mailed to you by January 31 of the year following the year you received a refund.

- **Federal Income Tax**

You pay no federal income tax on the amount you contributed before the date your employer adopted a tax sheltering resolution (if they have done so). However, the amount you contribute after the date your employer adopted a tax sheltering resolution (if they have done so), is subject to federal income tax. Also, all interest your contributions have earned 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% 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% excise tax on the taxable por-

tion of a refund received before your death, disability, or reaching age 59½. You can defer the income tax and avoid the 10% 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 5 or more years of retirement service credit as of August 12, 1989, your refund of LGERS contributions is not subject to North Carolina income tax. If you do not have 5 years of maintained retirement service credit as of August 12, 1989, the taxable portion of your refund is subject to North Carolina income tax.

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: Return to Work After Retirement

A 1-month wait after your LGERS retirement date before returning to work for an LGERS employer is required to avoid a retroactive loss of your LGERS retirement benefits.

Your LGERS benefit will be suspended if you return to work in a position requiring membership in LGERS.

If you work in any capacity for an employer under LGERS 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 LGERS.

You will be subject to return-to-work provisions based on the nature of the particular work you perform for a LGERS employer, regardless of your job classification or your technical employment status (which may include being assigned to work for a LGERS employer by a private company such as a temporary staffing agency).

- **Working After a 1-Month Break**

  After a 1-month break, you may return to work in a position that requires membership in LGERS. 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 LGERS member in the month in which you are restored to membership service.

  If you return to service and contribute to LGERS for at least 3 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 (generally larger) 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 reinstate your first retirement account and withdraw your contributions only from your second account

  If you return to service and contribute to LGERS for fewer than 3 additional years, at the time you end your second period of employment, your first retirement benefit will be reinstated. You can choose one of the following options for your second retirement account:

  - You can apply to receive a second (generally smaller) 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

After a 1-month break, you may return to work with a LGERS employer in a position ineligible for LGERS membership without affecting your LGERS benefit, provided you do not exceed your earnings limitations.

For additional information, see "Return-to-Work Laws" on our website at www.myncretirement.com.

After a 1-month break, if you return to work with an LGERS employer in a position ineligible for LGERS membership, your earnings will be restricted to the greater of the following:

- 50% of your gross 12-month pre-retirement salary (excluding termination payments)
- $31,380 (2015 amount)

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.

- **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.

- **After Receiving Disability**

  If you accept public or private employment, you may earn on an annual basis, up to the difference between your highest consecutive 12 months of salary in the 48 months preceding your disability retirement date and the amount of your annual disability retirement benefits, without affecting your disability retirement benefit. If you earn more than this amount, your disability retirement benefit will be reduced dollar-for-dollar by the amount of your excess earnings. The amount you are allowed to earn is adjusted each January by any increase in the annual national Consumer Price Index.

  For additional information, please see the Disability section on our website at www.myncretirement.com.

Section 12: Administration & Funding

- **Administration**

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

Janet Cowell, State Treasurer, Chair
John Aneralla
June Atkinson
Jerry Ayscue
Mike Bradley
Lentz Brewer
Randy Byrd
Kay Cashion
Loris Colclough
Kevin Gordon
Sally Sandy
Grady Smith

- **Assets**

The State Treasurer is the custodian of LGERS 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:

Janet Cowell, State Treasurer, Chair
David Hartzell
Steve Jones
Harold T. Keen
Harold Martin
Neal F. Triplett
Courtney A. Tuttle

- **Medical Review Board**

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

Dr. George S. Edwards, Sr.
Dr. Robert H. Fleming
Dr. Robert Gaddy
Dr. Bobby Sellers
Dr. Nathaniel L. Sparrow

- **Future of the System**

  The state expects to continue the 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 Local Governmental 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 128 of the General Statutes and Title 20 of the North Carolina Administrative Code.

- **Contributions**

  Members currently contribute 6% of gross salary each month to LGERS.

  Employers contribute an actuarially-determined percentage of the gross payroll of members each month to LGERS for benefits.

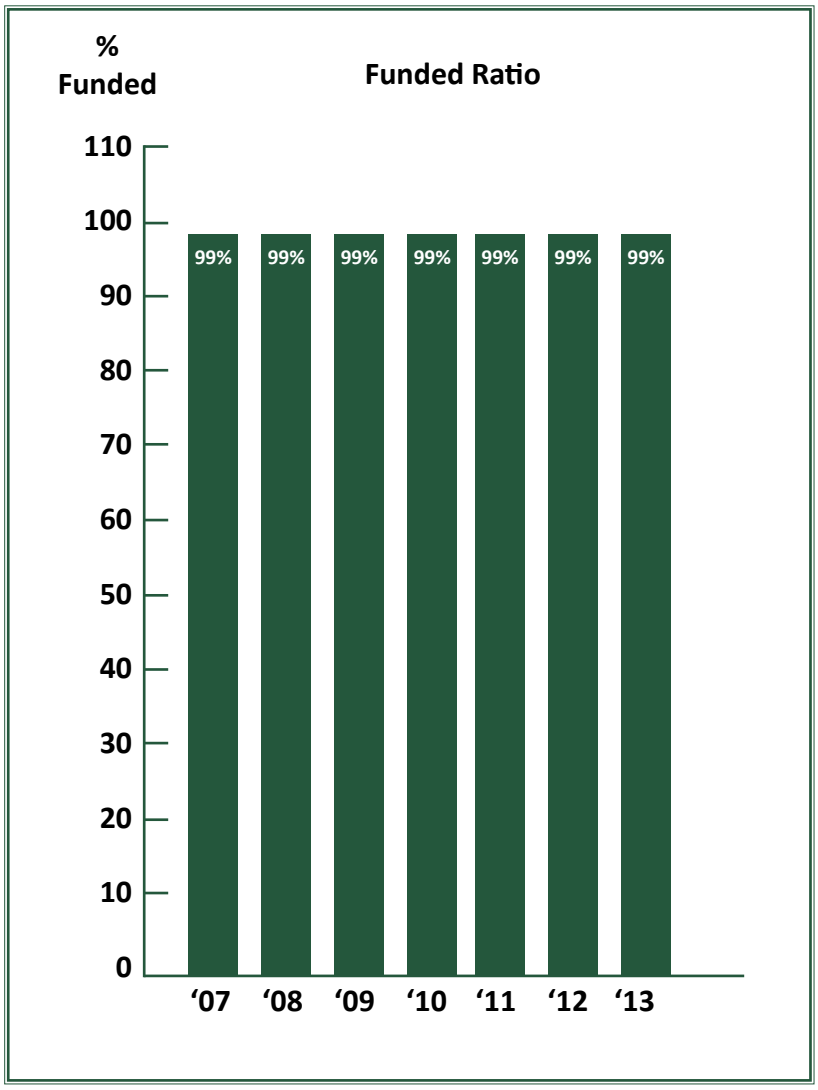
- **Funded Status & Ratio**

  The Retirement System has been 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. Shown are the assets and unfunded liabilities for the past several years, as of December 31 of each year and the funded ratio of the Retirement System (the percentage of the assets to the total accrued liabilities).

	Assets	Unfunded Accrued Liabilities
2013	$21,498,147,032	$39,666,249
2012	$20,295,238,845	$43,545,946
2011	$19,326,359,293	$47,440,424
2010	$18,570,513,903	$75,916,127
2009	$17,723,253,496	$81,538,254
2008	$17,100,738,902	$73,235,885
2007	$16,791,983,696	$76,163,736



Section 13: Resources and Contacts

The North Carolina Department of State Treasurer created ORBIT (Online Retirement Benefits through Integrated Technology) 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:

- Service credit history
- Retirement estimates
- Service purchase cost estimates
- NC 401(k)/NC 457 Transfer Benefit estimates
- Annual benefit statements

Retirees are able to:

- Maintain tax withholdings
- View and download 1099-R
- 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 into 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

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), NC 457, and NC 403(b) Plans*
- *Review the retirement checklist*
- *Use our service purchase estimator*
- *Read retirement newsletters*
- *Use our benefit estimators*
- *Learn about retirement planning resources*
- *Log into your personal ORBIT account*

Contact Us

Phone

Raleigh area 919-807-3050
Toll Free 1-877-627-3287
Fraud and Abuse Hotline 1-855-903-7283

Address

Local Governmental Employees' Retirement System
Department of State Treasurer
Albemarle Building
325 North Salisbury Street
Raleigh, North Carolina 27603-1385

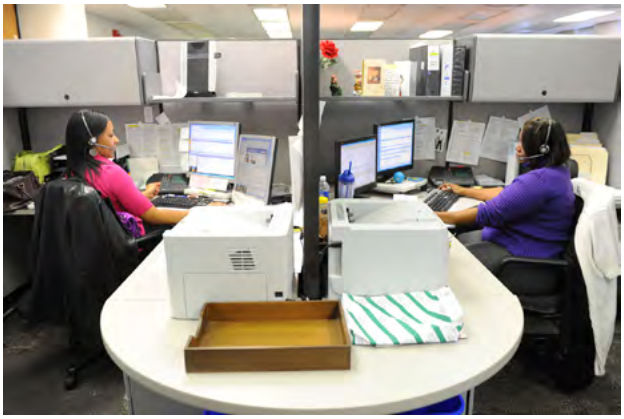
Office visits scheduled by appointment only. Please call or email our office to schedule an appointment.

Email

nc.retirement@nctreasurer.com

facebook

https://www.facebook.com/MyNCRetirement



Section 14: 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 LGERS that has not been withdrawn

ORBIT: Online Retirement Benefits through Integrated Technology

TSERS: Teachers' and State Employees' Retirement System

Vesting: Having the right, after you have a minimum of 5 years of LGERS creditable service, to apply for lifetime monthly retirement benefits once you meet all retirement eligibility requirements, provided you do not withdraw your contributions