



**TEACHERS' AND STATE EMPLOYEES' RETIREMENT SYSTEM &
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

Plan Design Follow-Up: Member Contribution Rates

July 31, 2025

Discussion Topics

- Context
- History of TSERS and LGERS member contribution rates
- Prevalence data (other states/cities)
- Employer pick-up provisions
- Considerations specific to N.C. Retirement Systems
- Overall perspective

Context of Discussion

- Employer contribution rates have increased since turn of century
- Member contribution rates have remained at 6% of compensation for many years

FY Ending	2000	2025
TSERS employer contribution rate (retirement)	8.15%	16.79%
LGERS employer contribution rate (non-LEO)	4.80%	13.60%
LGERS employer contribution rate (LEO)	5.27%	15.10%
Member contribution rate (TSERS & LGERS)	6.00%	6.00%

- Board members requested background on TSERS and LGERS member contribution rates
- Presentation informational, not a staff recommendation of any change

History of TSERS and LGERS Member Contribution Rates

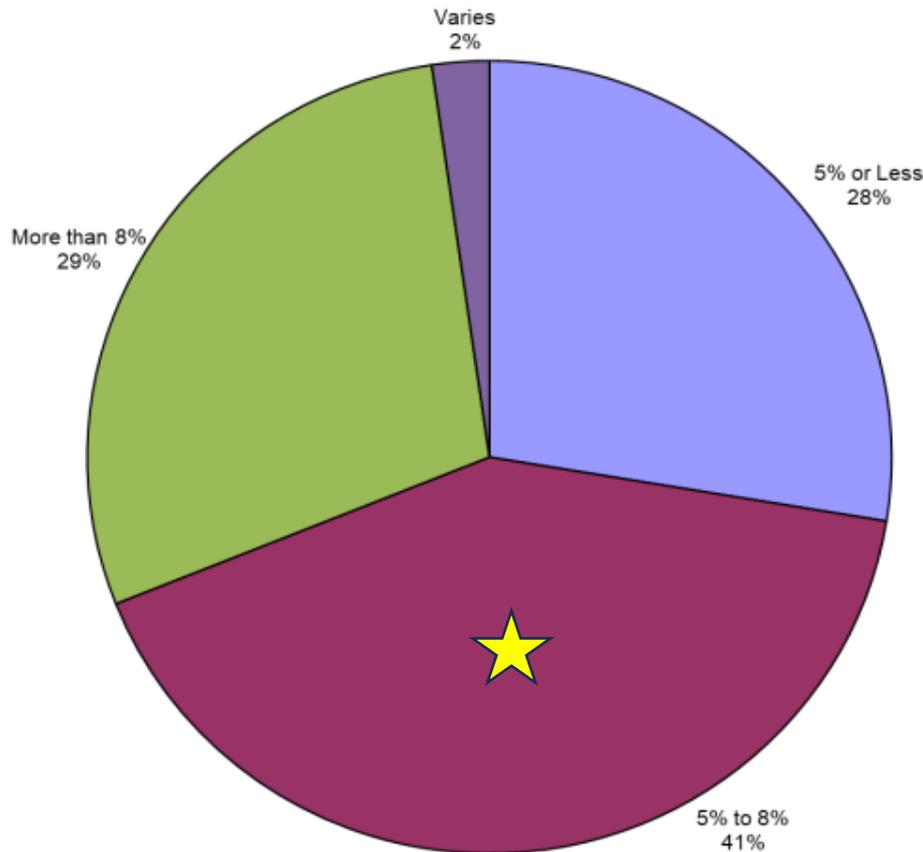
- Rates have moved together (not always simultaneously)
- 6% rate has been in place for ~ 50 years

Date (LGERS)	Date (TSERS)	Member Contribution Rate
Until 6/30/1947	Until 6/30/1951	3%
7/1/1947	7/1/1951	3% on earnings subj. to Soc. Sec. taxes, 5% on other earnings*
7/1/1965	7/1/1963	4% on earnings up to \$4,800 / year, 6% on additional earnings
1/1/1966	1/1/1966	4% on earnings up to \$5,600 / year, 6% on additional earnings
7/1/1967	7/1/1967	5% on earnings up to \$5,600 / year, 6% on additional earnings
7/1/1976	7/1/1975	6%

* During this time, LGERS employers could elect a lower level of coverage where the member contribution rate on earnings not subject to Social Security was 4%, not 5%.

Prevalence Data – Wisconsin Comparative Study

Figure 5. 2023-24 Employee Contribution Rates



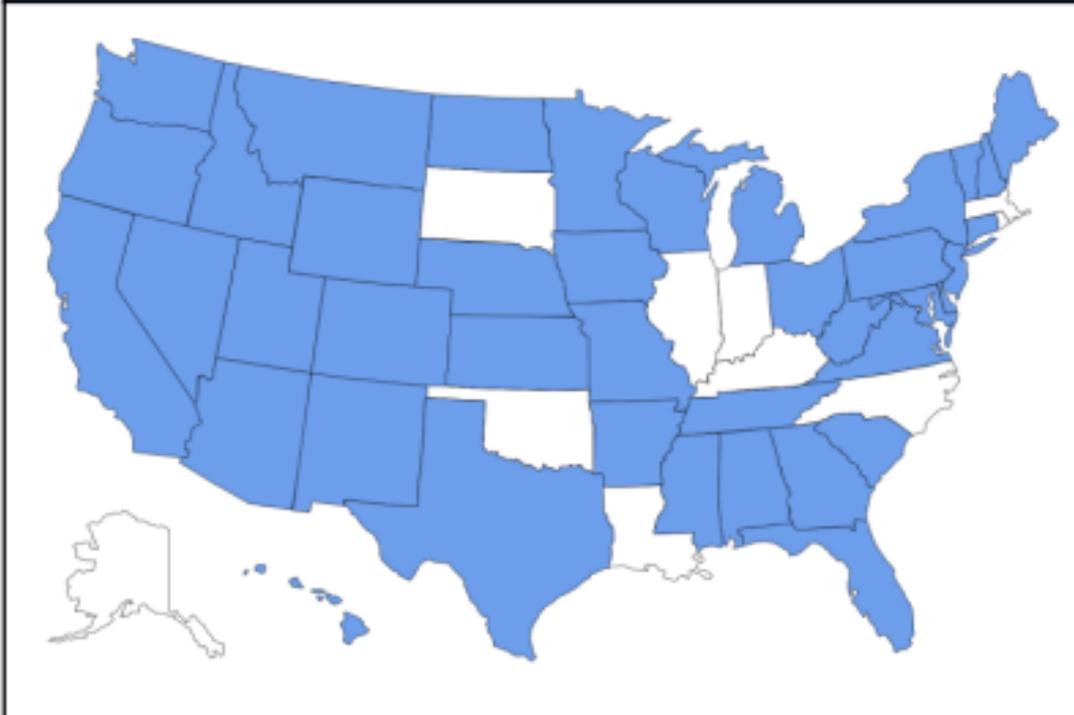
★ = N.C.

Source: Wisconsin Legislative Council, “2023-24 Comparative Study of Major Public Employee Retirement Systems,” October 2024

Note: Data includes systems where employees are not covered by Social Security. Those systems tend to have greater member contribution rates.

Prevalence Data – NASRA Summary

Figure 2: States that increased employee contributions in at least one public pension plan since 2009



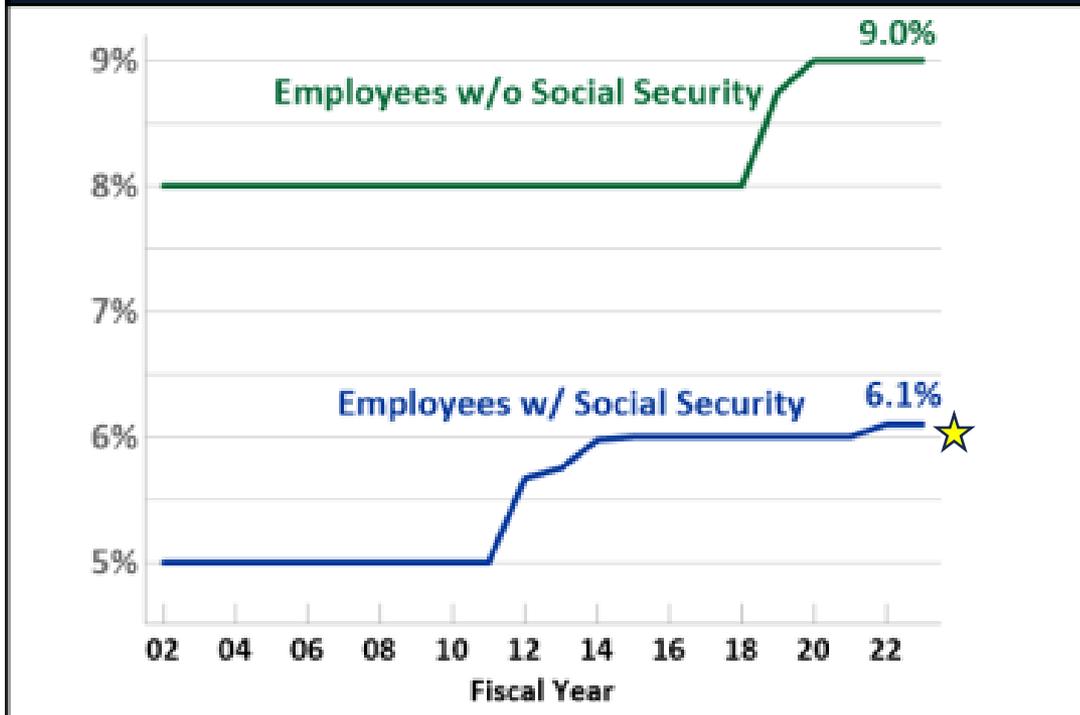
(States shaded in blue saw an increase in the employee contribution rate for at least one public pension plan since 2009)

Source: “NASRA Issue Brief: Employee Contributions,” Nov. 2024

Note: “Higher rates in some cases apply only to new hires.”

Prevalence Data – NASRA Summary

Figure 3: Median employee contribution rate by Social Security eligibility, FY 02 to FY 23 (non-public safety)



★ = N.C.

Source: “NASRA Issue Brief: Employee Contributions,” Nov. 2024

NASRA Assessment of Trends Across U.S.

- Increased contribution requirements for current and/or new employees
- New contribution requirements for employees/groups not previously required (e.g., FL, MO, UT)
 - “Most states that previously administered non-contributory plans now require worker contributions.”
- Variable contributions depending on actuarial condition or other factors (e.g., AZ, CA, CT requiring at least half of normal cost; MI requiring new hires to pay half of full cost; UT requiring any cost above a cap; CO and PA requiring adjustments if certain funding/investment conditions occur)
- Hybrid plans, combining elements of defined benefit and defined contribution plans – wide variety of concepts

Source: “NASRA Issue Brief:
Employee Contributions,” Nov. 2024

Employer “Pick-Up” Provision – Background

- Implemented 7/1/1982, after most recent change to member contribution rates
- Employer contributions are not taxable to member in the year they are contributed to the retirement plan
- Member contributions are taxable, unless the member elects to defer the income under specific rules (like a 401(k))
- Members of TSERS and LGERS do not “elect” a deferral
- Default rule is that member contributions are taxable earnings
- But, if employer agrees to “pick up and pay” all member contributions, they are “deemed” as employer contributions for income tax purposes, not taxable in year paid (IRC § 414(h)(2); Rev. Rul. 2006-43)
- There are different rules for Social Security / Medicare taxes (FICA); as implemented in N.C., the employer pick-up is subject to those taxes

Employer “Pick-Up” Provision – Associated Requirements

- Only allowed if employer agrees to it; cannot be the “default”
- Employer must take formal action (e.g. governing board resolution) to provide that member contributions will be paid by the employer
- Decision must apply only prospectively
- After date of decision, no employee can opt out of pick-up, or have any contributions paid first to employee (“cash or deferred election”)

How Prevalent Is This in N.C.?

- The state (TSERS) and nearly all local governments (LGERS) have entered into pick-up agreements over the years
- ~ 80 local governments (< 10% of LGERS employers) with ~ 1,100 employees (< 1% of LGERS employees) have not
- ~ 40 municipalities, ~ 30 ABC Boards, ~ 10 other districts

Employer “Pick-Up” Provision – Example Scenarios

Pick-up provisions in U.S. vary by state/city. This is the TSERS/LGERS approach:

	Employer Does Not “Pick Up”	Employer “Picks Up”
Prevalence	No TSERS; A few LGERS (<10% employers, <1% employees)	All TSERS; Almost all LGERS
Compensation reported to Retirement System	\$50,000	\$50,000
Member contribution	\$3,000 (after-tax)	\$3,000 (before-tax)
Paid by	Member (payroll deduction)	Employer (payroll deduction)
Net compensation	\$47,000	\$47,000
Taxable earnings	\$50,000	\$47,000
Income tax on related part of refund or retirement benefit (later)	Not taxable income*	Taxable income

* Note, “non-pickup” does not have all the same tax advantages as, say, a Roth IRA or Roth 401(k), because investment earnings after the contribution are still taxable when distributed

Considerations Specific to N.C. Retirement Systems

- Any change would require legislation
- If change affects new employees only, likely minimal cost impact
- If current employees, would raise legal questions (next page)
- Consistency between TSERS and LGERS is important and useful
 - Transfers of membership between systems
 - Reciprocal recognition for eligibility (even if not transferred)
 - Service purchases
 - Relative attractiveness of refund vs. lifetime benefit
- 800+ LGERS employers have entered into irrevocable agreements to pick up member contributions at a time when rates were 6%
- Critical to maintain IRS conditions for valid pick-up, including no cash-or-deferred election
 - For example, if rate is for new employees only, and employees terminate/rehire just to get new arrangement, would cause concern

Changing Member Contribution Rate for Current Employees

- Presenter is not an attorney and cannot provide legal advice
- Experience of other systems has shown that if member contribution rate is changed for current employees, some of these employees will claim (rightly or wrongly) that vested rights were violated
- N.C. courts have found certain aspects of retirement benefits related to deferred compensation are contractual in nature – for example, *Simpson, Bailey, and Faulkenbury* (all decided when member contribution rate already 6%)
- Would the member contribution rate be one of those aspects?
- General perspective from other states:

“The legality of increasing contributions for current plan participants varies. Some states prohibit an increase in contributions for existing plan participants. For example, a 2012 ruling in Arizona found that legislative efforts to increase contributions for existing workers violated a state constitutional protection against impairment of benefits. In other states, however... higher employee contributions either did not produce a legal challenge, or withstood legal challenges.”

- “NASRA Issue Brief: Employee Contributions,” Nov. 2024

Overall Perspective

- Retirement benefits are valuable, and thus costly. Employees and employers sharing the cost is a tried-and-true approach.
- With or without an employer pick-up, member contributions reduce the member's take-home pay.
- Public employers must attract and retain employees in a labor market where other employers offer different benefits and trade-offs.
- Although it is tempting to think of employer and member contributions as two separate sources of funds, they are interdependent in some ways. In particular, **the member contribution rate affects employer budgeting** in ways that may not be obvious at first.
- See the next two hypotheticals, which start by assuming a gross compensation of \$50,000 with member contribution of 6% and employer contribution of 14%.

Hypothetical #1: Member Contribution Rates Eliminated

- Does this translate to an increase in take-home pay?
- Only if employers can tolerate the 6% increase in their employer contribution rate. Would salaries be cut to make budgets work?

	Mbr. Contrib. (Current)	No Mbr. Contrib. (Hypothetical (?))	No Mbr. Contrib. (Hypothetical (Budget-Neutral))
Gross compensation	\$50,000	\$50,000	\$47,500
Member contribution	\$3,000 (6%)	\$0 (0%)	\$0 (0%)
Net compensation	\$47,000	\$50,000	\$47,500
Employer contribution	\$7,000 (14%)	\$10,000 (20%)	\$9,500 (20%)*
Total rec'd by Ret. Sys.	\$10,000	\$10,000	\$9,500
Total employer spend (Gross comp. + ER contr.)	\$57,000	\$60,000	\$57,000

* If payrolls drop, the employer contribution rate (% of compensation) would likely have to increase beyond 20%. Also note, this analysis ignores secondary effect from refunds no longer being available.

Hypothetical #2: Member Contribution Rates Increased to 10%

- Does this translate to employer contribution savings?
- Only if employers think their employees can tolerate the drop in take-home pay.

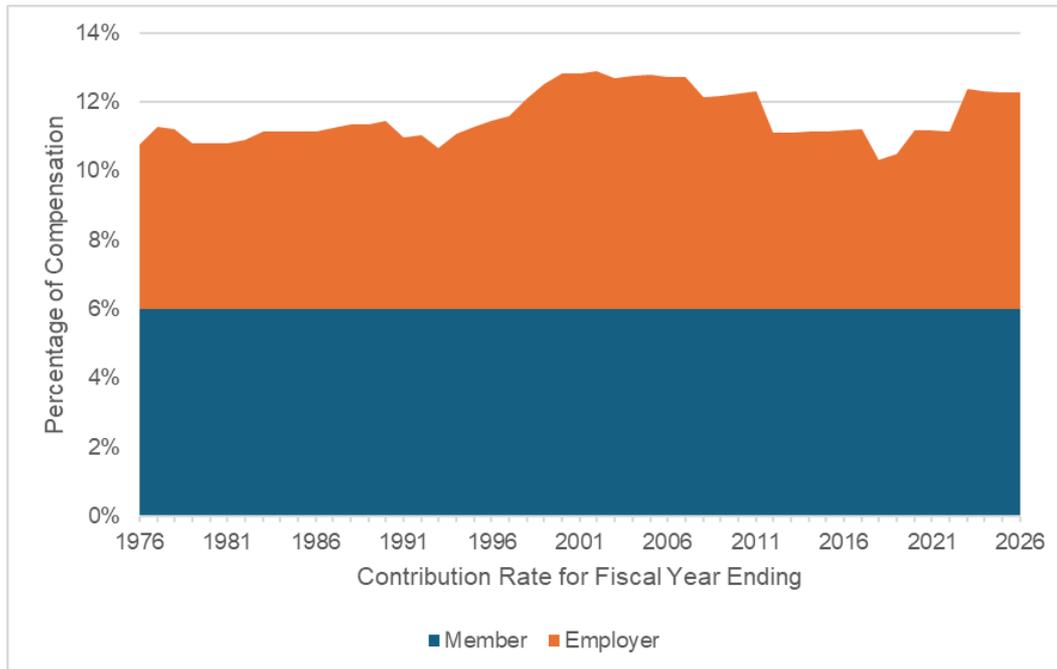
	Mr. Contrib. (Current)	10% Mr. Contrib. (Hypothetical) (?)	10% Mr. Contrib. (Hypothetical) (Net Comp. Same)
Gross compensation	\$50,000	\$50,000	\$52,222
Member contribution	\$3,000 (6%)	\$5,000 (10%)	\$5,222 (10%)
Net compensation	\$47,000	\$45,000	\$47,000
Employer contribution	\$7,000 (14%)	\$5,000 (10%)	\$5,222 (10%)
Total rec'd by Ret. Sys.	\$10,000	\$10,000	\$10,444
Total employer spend (Gross comp. + ER contr.)	\$57,000	\$55,000	\$57,444

Note, this analysis ignores secondary effect from refunds being larger.

Sharing of “Normal Cost” in TSERS (Blue = Member, Orange = Employer)

Bigger questions:

- What value of benefit (and what type of benefit) should the Retirement System provide?
- How much should employees pay?



- “Normal cost” is the value of benefits earned by employees as they work for another year.
- Normal cost is shared between members and employers. There is also an employer contribution toward the unfunded liability.
- Member contribution rate of 6% is consistent with a benefit design where employees and employers share “normal cost” about 50/50.
- Member contribution to TSERS has been 47%-58% of the normal cost each year since FYE 1976. The average (for 51 yrs.) has been 52%. It is currently 49%.

LGERS discussion would be conceptually similar; not shown here because of historical and structural differences.



Thank you.



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