



January 29, 2026

## **Summary of Funding/Benefits Alternatives for Recommendations to Legislature for Fiscal Year Ending in 2027**

### **Teachers' and State Employees' Retirement System (TSERS) Board of Trustees**

#### **Executive Summary**

This document summarizes alternatives for the Board's funding and benefits recommendations to the North Carolina General Assembly for its 2026 session. This includes alternatives for funding during the fiscal year ending in 2027.

Session Law 2025-89 (House Bill 125, "Continuing Budget Operations"), enacted August 6, 2025, established employer contribution rates effective July 1, 2025. Retirement-related costs for the fiscal year ending in 2027 will be informed by the most recent annual valuation reports published by the consulting actuaries, Gallagher, in October 2025. These costs may be adjusted for any benefit changes enacted by the General Assembly.

The Board may make recommendations to the General Assembly regarding the appropriate funding levels for currently-promised benefits for the fiscal year ending in 2027, based on the actuarial valuation results. The Board also may recommend changes in benefits, as well as changes in funding that would be connected to benefit change recommendations.

Staff believes that the following substantive issues remain for the Board to consider:

- (1) Whether to direct staff to implement a post-disability benefit adjustment for the Disability Income Plan of North Carolina (DIPNC) if the General Assembly enacts a permanent across-the-board salary increase for State employees effective during the fiscal year ending in 2026.
- (2) Whether to recommend a benefit improvement under the North Carolina National Guard Pension Fund (NCNGPF).

The remainder of this memo provides details regarding each Retirement System.

## TSERS

G.S. 135-8(d)(3a) requires that employer contributions to TSERS in each year “shall not be less than the sum of the rate per centum known as the actuarially determined employer contribution [ADEC] rate... as adjusted higher under a contribution rate policy adopted by the Board of Trustees and known as the ‘required employer contribution’ rate.” G.S. 135-8(d)(2a) requires that the ADEC rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.”

### 1. ADEC Prior to Legislative Changes and Contribution Rate Policy

The most recent TSERS actuarial valuation report documents the recommended employer contribution rate for the fiscal year ending in 2027. The “ADEC Prior to Legislative Changes and Contribution Rate Policy” is the mathematical contribution rate that would fund the system using the Board’s assumptions and methods adopted on January 28, 2021, and plan population and asset information as of December 31, 2024. The “ADEC Prior to Legislative Changes and Contribution Rate Policy” for the fiscal year ending in 2027 is 16.07% of compensation.

### 2. Adjustment for Legislative Changes

There have been no legislative changes since the October 2025 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

### 3. Adjustment for Employer Contribution Rate Stabilization Policy (ECRSP)

The Board adopted the current ECRSP on April 29, 2021. This policy serves to provide predictable incremental increases in the employer contribution rate to ameliorate any potential adverse experience. Under the ECRSP, the annual appropriation recommendation for the fiscal year ending in 2026 will be the greater of (A) or (B) below. The greater of the two is 17.49%.<sup>1</sup>

- (A) The rate from part (1) above, as adjusted for part (2) if necessary. This rate is 16.07%.
- (B) 0.35% greater than the Board’s recommendation from the fiscal year ending in 2026, as adjusted for any legislative benefit change if necessary. The Board’s recommendation for the fiscal year ending in 2026 was 17.14%. Therefore, the rate under (B) is  $17.14\% + 0.35\% = 17.49\%$ .

This adjusted ADEC rate of 17.49% of pay is greater than the appropriated employer contribution rate for the fiscal year ending in 2026 from S.L. 2025-89, Section 3.6.(b), which was 17.14%. Therefore, the ECRSP would require the recurring appropriation to TSERS from the General Fund to increase by \$47.1 million for the fiscal year ending in 2027.<sup>2</sup>

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<sup>1</sup> The ECRSP also provides that the recommended rate should be no greater than the ADEC if it were determined using a discount rate equal to the yield on 30-year Treasury securities, as adjusted for legislative benefit changes. According to the most recent actuarial valuation report, this upper bound would have been approximately 41.45% of compensation.

<sup>2</sup> As illustrated in the footnotes to the “Summary” page of this document, the approximate dollar amounts for appropriations effective July 1, 2026, are estimated using the “Estimated State Payrolls for Retirement Appropriations Purposes for the 2025 Session of the North Carolina General Assembly,” set forth in a letter from the Executive Director of the Retirement Systems to the State Budget Director and the Director of the Fiscal Research Division of the General Assembly, dated April 7, 2025. For example, the approximate increase in appropriations from the General Fund (\$47.1 million) is estimated as \$13,450,413,000 (the TSERS payroll sourced from the General Fund from the aforementioned memo) multiplied by 0.35% (17.49% minus 17.14%). Once a similar payroll letter is finalized for the 2026 Session of the General Assembly, the dollar amounts would change in accordance with the new estimated payroll amounts.

**Cost of Living Adjustment to Retirement Allowances (COLA) or One-Time Supplements.** The Board may recommend benefit changes to the General Assembly, but does not have the authority to grant them. G.S. 135-5(o) has various provisions related to COLAs, including a description of an increase to ongoing monthly benefits limited to 4% or inflation (whichever is less) when the cost would not require an increase in the employer contribution rate. Notwithstanding the amount of investment gains experienced in a year, if any, the ECRSP provides that the recommended employer contribution rate for any year through the fiscal year ending in 2027 will be adjusted for “the effect of any benefit change enacted by the General Assembly that was not incorporated in the consulting actuary’s annual valuation report.”

In the latest actuarial valuation report, Gallagher stated that “an actuarial investment loss was incurred during 2024, and there are no investment gains available to support a recommendation of either of the following by the TSERS Board of Trustees: (1) a Cost-of-Living Adjustment (COLA) that would take effect on July 1, 2026; or (2) a one-time supplement to participants in receipt of benefits, payable July 1, 2026.”

The Board could recommend that the legislature enact a COLA or one-time supplement. However, given that no investment gains are available to fund it, any such recommendation by the Board would need to be accompanied by a recommendation for how to pay for the COLA or supplement.

Gallagher has calculated that the unfunded actuarial accrued liability, for benefits already promised by TSERS, was \$12.0 billion as of December 31, 2024. The “Unfunded Liab. as of 12/31/2024” columns of Tables 1 and 2 below show how much unfunded liability would be added by COLAs or one-time supplements, until TSERS can receive the contributions necessary to pay the new benefits. For example, a permanent 3.5% COLA would add \$2,055 million (or \$2.1 billion) to the already-existing \$12.0 billion unfunded liability.

A COLA or one-time supplement could theoretically be paid for by direct appropriations from the legislature, equal to the amount of unfunded liability, with interest from December 31, 2024 until the date(s) the appropriation is paid to TSERS. These amounts are illustrated in the “Required Approp. as of 7/1/2026” columns in Tables 1 and 2 below. For example, a direct appropriation of \$2,258 million (or \$2.3 billion) on July 1, 2026 would fund the cost of a permanent 3.5% COLA. However, this method of paying for a COLA or supplement would create a “mismatch” in funding sources. The personnel budgets typically used to fund TSERS employer contributions include budgets for positions supported by the General Fund, Highway Fund, other funds, and employer receipts. A recommendation of a direct legislative appropriation, while not impossible, would represent a change in funding sources for many of the contributions.

A COLA or one-time supplement could also be funded by an increase to the employer contribution rate. The associated costs are in Tables 1 and 2 below. As two examples:

- From Table 1, a permanent 3.5% COLA would increase employer contribution rates by 1.37% of compensation for 12 years, which is currently equivalent to \$184 million per year from the General Fund and \$280 million per year when considering all funding sources.
- From Table 2, a one-time supplement equal to 3.5% of the annual pension benefit would increase the employer contribution rate by 1.02% of compensation for one year, which is currently equivalent to \$137 million from the General Fund and \$208 million when considering all funding sources.

Table 1: Costs Associated with Permanent COLAs

Pct. COLA	Additional Unfunded Liab. as of 12/31/2024	Required Approp. If Paid Entirely on 7/1/2026	Add'l Rate If Paid by Increasing Employer Contrib. Rate for 12 Yrs.	Annual Cost (12 Yrs.), General Fund / All Sources
0.5%	\$294 million	\$323 million	0.20%	\$26M / \$40M
1.0%	\$587 million	\$645 million	0.39%	\$52M / \$80M
1.5%	\$881 million	\$968 million	0.59%	\$79M / \$120M
2.0%	\$1,174 million	\$1,290 million	0.78%	\$105M / \$160M
2.5%	\$1,468 million	\$1,613 million	0.98%	\$131M / \$200M
3.0%	\$1,761 million	\$1,935 million	1.17%	\$157M / \$240M
3.5%	\$2,055 million	\$2,258 million	1.37%	\$184M / \$280M
4.0%	\$2,348 million	\$2,581 million	1.56%	\$210M / \$319M

Table 2: Costs Associated with One-Time Supplements

Pct. Supp	Additional Unfunded Liab. as of 12/31/2024	Required Approp. If Paid Entirely on 7/1/2026	Add'l Rate if Paid by Increasing Employer Contrib. Rate for 1 Yr.	Cost (1 Yr.), General Fund / All Sources
0.5%	\$29 million	\$32 million	0.15%	\$20M / \$30M
1.0%	\$58 million	\$64 million	0.29%	\$39M / \$59M
1.5%	\$87 million	\$95 million	0.44%	\$59M / \$89M
2.0%	\$116 million	\$127 million	0.58%	\$78M / \$119M
2.5%	\$145 million	\$159 million	0.73%	\$98M / \$148M
3.0%	\$174 million	\$191 million	0.87%	\$117M / \$178M
3.5%	\$203 million	\$223 million	1.02%	\$137M / \$208M
4.0%	\$232 million	\$254 million	1.16%	\$156M / \$238M

**Policy Option for Consideration by the Board.** Recommend the legislature set a contribution rate of 17.49% of compensation to cover the “required employer contribution” pursuant to G.S. 135-8(d)(3a) for the fiscal year ending in 2027. The recurring appropriation from the General Fund would need to increase by \$47.1 million from the amount appropriated for the fiscal year ending in 2026.

## **Consolidated Judicial Retirement System (CJRS)**

G.S. 135-66(d) provides that an actuarially determined employer contribution (ADEC) rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.” G.S. 135-66(e) provides that “the Board of Trustees may adopt a contribution policy that would recommend a contribution not less than the [ADEC].” G.S. 135-66(f) provides that “the recommended employer contribution rate by the Board of Trustees each year shall not be less than the [ADEC].”

### **1. ADEC Prior to Legislative Changes**

The most recent valuation report shows the “ADEC Prior to Legislative Changes” rate for the fiscal year ending in 2027. The “ADEC Prior to Legislative Changes” is the mathematical contribution rate that would fund the system using the Board’s assumptions adopted on January 28, 2021, and plan population and asset information as of December 31, 2024. It consists of a normal contribution rate and an accrued liability contribution rate. The “ADEC Prior to Legislative Changes” for the fiscal year ending in 2027 is 40.68% of compensation.

### **2. Adjustment for Legislative Changes**

There have been no legislative changes since the October 2025 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

The ADEC rate for the fiscal year ending in 2027, 40.68% of compensation, is greater than the appropriated employer contribution rate for the fiscal year ending in 2026 from S.L. 2025-89, Section 3.6.(b), which was 37.73%. Therefore, the recurring appropriation to CJRS from the General Fund would be required to increase by \$3.1 million for the fiscal year ending in 2027.<sup>3</sup>

**Policy Option for Consideration by the Board.** Recommend the legislature set a contribution rate of 40.68% of compensation for the fiscal year ending in 2027. The recurring appropriation from the General Fund would need to increase by \$3.1 million from the amount appropriated for the fiscal year ending in 2026.

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<sup>3</sup> The approximate increase in appropriations from the General Fund (\$3.1 million) is estimated as \$105,457,000 (CJRS payroll from “Estimated State Payrolls for Retirement Appropriations Purposes for the 2025 Session of the North Carolina General Assembly,”) multiplied by 2.95% (40.68% minus 37.73%).

## **Legislative Retirement System (LRS)**

G.S. 120-4.20(a) provides that “the State shall contribute annually an amount equal to the sum of the ‘normal contribution’ and the ‘accrued liability contribution.’” G.S. 120-4.20(e) provides that “the normal contribution rate and the accrued liability contribution rate shall be determined after each annual valuation of the Retirement System and shall remain in effect until a new valuation is made.”

### **1. ADEC Prior to Legislative Changes**

The most recent valuation report shows the “ADEC Prior to Legislative Changes” rate for the fiscal year ending in 2027. The “ADEC Prior to Legislative Changes” is the mathematical contribution rate that would fund the system using the Board’s assumptions adopted on January 28, 2021, and plan population and asset information as of December 31, 2024. It consists of a normal contribution rate and an accrued liability contribution rate. The “ADEC Prior to Legislative Changes” for the fiscal year ending in 2027 is 17.87% of compensation.

### **2. Adjustment for Legislative Changes**

There have been no legislative changes since the October 2025 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

The ADEC rate for the fiscal year ending in 2027, 17.87% of compensation, is less than the appropriated employer contribution rate for the fiscal year ending in 2026 from S.L. 2025-89, Section 3.6.(b), which was 18.26%. Therefore, the recurring appropriation to LRS from the General Fund could decrease by \$14,000 while still meeting the ADEC requirements for the fiscal year ending in 2027.<sup>4</sup>

**Policy Option for Consideration by the Board.** Recommend the legislature set a contribution rate of 17.87% of compensation for the fiscal year ending in 2027. The recurring appropriation from the General Fund could decrease by \$14,000 while still meeting the ADEC requirements for the fiscal year ending in 2027.

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<sup>4</sup> The approximate decrease in appropriations from the General Fund (\$14,000) is estimated as \$3,620,000 (LRS payroll from “Estimated State Payrolls for Retirement Appropriations Purposes for the 2025 Session of the North Carolina General Assembly,”) multiplied by 0.39% (18.26% minus 17.87%).

## **Disability Income Plan of North Carolina (DIPNC)**

G.S. 135-110 provides that the Board shall determine and adopt an employer contribution rate “not inconsistent with acts of the General Assembly” that is “sufficient to fund the benefits payable under [DIPNC] on a term cost method basis as recommended by [the consulting actuary].” Employers pay their contribution “from the same source of funds from which the compensation” is paid. State budgets incorporate a contribution rate to be paid by employers of teachers and State employees.

The most recent valuation report shows the recommended actuarially determined contribution (ADC) rate for the fiscal year ending in 2027. The ADC is the mathematical baseline contribution rate that would fund the system using the Board’s assumptions adopted on January 28, 2021, and plan population and asset information as of December 31, 2024.

The ADC rate for the fiscal year ending in 2027, 0.06% of compensation, is less than the appropriated employer contribution rate for the fiscal year ending in 2026 from S.L. 2025-89, Section 3.6.(b), which was 0.07%. Therefore, the recurring appropriation to DIPNC from the General Fund could decrease by \$1.5 million while still meeting the ADEC requirements for the fiscal year ending in 2027.<sup>5</sup>

**Adjustment to Base Rate of Compensation.** G.S. 135-108 provides that the beneficiary’s base rate of compensation, which is used in calculating short-term and long-term disability benefits under DIPNC, may be increased “by any permanent across-the-board salary increase granted to employees of the State by the General Assembly.” G.S. 135-101(1) authorizes the Board to determine the base rate of compensation in all cases of doubt. Based on G.S. 135-110, described above, the Board should incorporate any adjustment to the base rate of compensation in recommending an employer contribution rate for State budget purposes.

G.S. 135-108 refers to possible adjustments when across-the-board salary increases are granted to “employees of the State.” The statutory definition of “employee” (G.S. 135-101(8), referencing G.S. 135-1(10)) does not include those working for school boards or other educational institutions, who are instead defined as “teachers” (G.S. 135-101(19), referencing G.S. 135-1(25)). “Teachers” may receive different salary increases from “employees.” Therefore, it may be the case that the legislature grants an across-the-board salary increase to “employees of the State,” enabling an adjustment under G.S. 135-108, even if the legislature does not grant an across-the-board salary increase to members of DIPNC (or of TSERS) writ large. Also, in the past, the Board has understood a legislated salary increase for State employees to be “across-the-board” within the meaning of G.S. 135-108 if the related budget legislation grants an increase generally applicable to State employees and goes on to specify different salaries for certain categories of State employees (such as law enforcement officers or correctional officers).

The legislature has not yet enacted a permanent across-the-board salary increase for State employees effective in the fiscal year ending in 2026. RSD staff advises that administratively, any DIPNC adjustment could be implemented only if (1) the increase to compensation is a percentage, rather than a dollar amount, (2) the DIPNC implementation is prospective, even if the legislated salary increase is retroactive, and (3) at least 90 days are allowed for testing and implementing the DIPNC adjustment.

Gallagher has confirmed that if there is an increase to the compensation used to calculate DIPNC benefits, at any level up to 3.25%, and the adjustment is applied prospectively, it would not change the 0.06% employer contribution rate for the fiscal year ending in 2027.

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<sup>5</sup> The approximate decrease in appropriations from the General Fund (\$1.5 million) is estimated as \$14,983,576,000 (payroll sourced from the General Fund from “Estimated State Payrolls for Retirement Appropriations Purposes for the 2025 Session of the North Carolina General Assembly” for TSERS [\$13,450,413,000] added to the UNC Optional Retirement Plan [\$1,533,163,000]), multiplied by 0.01% (0.07% minus 0.06%).

**Policy Options for Consideration by the Board.**

(1)

- a. Funding: Recommend the legislature set a contribution rate of 0.06% of compensation for the fiscal year ending in 2027. The recurring appropriation from the General Fund could decrease by \$1.5 million while still meeting the ADEC requirements for the fiscal year ending in 2027.
- b. Adjustment to Base Rate of Compensation: No current recommendation. Re-evaluate if/when a permanent across-the-board salary increase for State employees is enacted.

(2)

- a. Funding: Same as Option (1).
- b. Adjustment to Base Rate of Compensation: In the event that a permanent across-the-board salary increase for State employees is enacted and effective on or before June 30, 2026, the Board directs RSD staff to increase the base rate of compensation upon which DIPNC benefits are calculated, by an equivalent percentage to the generally applicable salary increase for State employees, no greater than 3.25%. The Board directs staff to apply the adjustment prospectively to benefits payable from DIPNC, effective the first day of a calendar month 90 days after enactment of the permanent across-the-board salary increase for State employees.

## **North Carolina National Guard Pension Fund (NCGPF)**

G.S. 127A-40.1(d) provides that an actuarially determined employer contribution (ADEC) rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.” G.S. 127A-40.1(e) provides that “the Board of Trustees may adopt a contribution policy that would recommend a contribution not less than the [ADEC].” G.S. 127A-40.1(f) provides that “the recommended employer contribution rate by the Board of Trustees each year shall not be less than the [ADEC].”

### **1. ADEC Prior to Legislative Changes and Contribution Policy**

The most recent NCGPF actuarial valuation report documents the recommended “ADEC Prior to Legislative Changes and Contribution Policy” amount for the fiscal year ending in 2027. The “ADEC Prior to Legislative Changes and Contribution Policy” is the mathematical contribution that would fund the system using the Board’s assumptions and methods adopted on January 21, 2021, and plan population and asset information as of December 31, 2024. The “ADEC Prior to Legislative Changes and Contribution Policy” for the fiscal year ending in 2027 is \$0.

### **2. Adjustment for Legislative Changes**

There have been no legislative changes since the October 2025 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

### **3. Adjustment for State Contribution Rate Stabilization Policy (SCRSP)**

The Board adopted the SCRSP on April 29, 2021 and amended it on January 25, 2024. The SCRSP provides that if the most recent measured funded percentage of the NCGPF is at least 100%, the recommended State contribution will be equal to the Normal Cost used to calculate the ADEC. Based on current benefit levels and the most recent actuarial valuation report, the relevant funded percentage was 122.3%, and the Normal Cost for the fiscal year ending in 2027 is \$1,126,618. Accordingly, the ADEC recommended under the SCRSP based on current benefit levels is \$1,126,618.

The ADEC of \$1,126,618 based on current benefit levels is greater than the appropriated State contribution for the fiscal year ending in 2026, which was \$1,120,949. (Under the continuing budget, this appropriation was equal to the recurring amount appropriated for the fiscal year ending in 2025 by S.L. 2023-134, as amended by S.L. 2024-55, Section 12.1.(b), which was \$1,120,949.) Therefore, the recurring appropriation to NCGPF from the General Fund would be required to increase by \$5,669 for the fiscal year ending in 2027.

**Board’s Prior Recommendation for Benefit Improvement.** In January 2025, the Board recommended to the legislature that benefits be improved based on the prior year’s inflation. The recommendation was to increase the monthly benefit after 20 years of military service from \$105 to \$108, to increase the monthly benefit earned for each of the 21st through 30th years of military service from \$10.50 to \$10.80, and to increase the (maximum) monthly benefit after 30 years of military service from \$210 to \$216. This recommendation was incorporated in a version of Senate Bill 257 that has passed the Senate (SB 257 [v. 3], Section 41.24), and in a version that has passed the House of Representatives (SB 257 [v. 6], Section 41.24). However, no version of Senate Bill 257 has been agreed upon by both chambers and enacted.

**Additional Benefit Improvement.** The NCGPF was measured to be 122.3% funded on an actuarial basis as of December 31, 2024, with \$188.2 million in actuarial value of assets, as compared to \$153.8 million in actuarial accrued liability. Because the funded percentage was at least 100%, the SCRSP provides that the Board may consider recommending a benefit increase up to the relevant inflation measure, which was 2.67%.

At current benefit levels, the 2.67% inflation rate would equate to an increase of \$2 to the monthly benefit after 20 years of military service (e.g., from the already-recommended \$108 to \$110), and an increase of \$4 to the monthly benefit after 30 years of military service (from the already-recommended \$216 to \$220).

If the Board chose to add a new recommendation to the prior recommendation from January 2025, this would entail a recommended increase in the benefit to \$110 after 20 years of military service, and \$11.00 for each additional year of military service up to a total of 30 years, for a maximum benefit of \$220 per month after 30 years of military service. This would require no additional request for State funding for already-earned benefits (Table 1). It would require an increase to the funding for benefits earned in the current year, i.e., the normal cost (Table 2).

*Table 1: Benefit Improvement Costs for Already-Earned Benefits*

Monthly Ben. After 20 Yrs. / 30 Yrs.	Full Actuarial Cost	Actuarial Surplus at 12/31/24	Expected State Contribution	Net Funding Requirement
\$105 / \$210 ( <i>Current</i> )	\$0	(\$34,362,186)	(\$1,126,618)	\$0
\$106 / \$212	\$1,474,483	(\$34,362,186)	(\$1,126,618)	\$0
\$107 / \$214	\$2,948,966	(\$34,362,186)	(\$1,126,618)	\$0
\$108 / \$216 ( <i>Jan. 2025 Rec.</i> )	\$4,423,449	(\$34,362,186)	(\$1,126,618)	\$0
\$109 / \$218	\$5,897,932	(\$34,362,186)	(\$1,126,618)	\$0
\$110 / \$220	\$7,372,415	(\$34,362,186)	(\$1,126,618)	\$0

*Table 2: Normal Costs at Various Benefit Levels*

Monthly Ben. After 20 Yrs. / 30 Yrs.	Normal Cost	Increase vs. Current \$1,120,949 Approp.
\$105 / \$210 ( <i>Current</i> )	\$1,126,618	\$5,669
\$106 / \$212	\$1,135,919	\$14,970
\$107 / \$214	\$1,145,220	\$24,271
\$108 / \$216 ( <i>Jan. 2025 Rec.</i> )	\$1,154,521	\$33,572
\$109 / \$218	\$1,163,822	\$42,873
\$110 / \$220	\$1,173,123	\$52,174

### **Policy Options for Consideration by the Board.**

- (1) The Board could make no further recommendation of a benefit improvement beyond what it already recommended in January 2025. In effect, this would leave standing the previous recommendation to increase the benefit from the \$105 / \$210 level to the \$108 / \$216 level. Under this option, the Board would recommend the legislature set a State contribution of \$1,154,521 for the fiscal year ending in 2027. The recurring appropriation from the General Fund would need to increase by \$33,572 from the amount appropriated for the fiscal year ending in 2026.
- (2) The Board could recommend a further increase in the benefit to as much as \$110 / \$220 level. Under this option (based on a \$110 / \$220 benefit level), the Board would recommend the legislature set a State contribution of \$1,173,123 for the fiscal year ending in 2027. The recurring appropriation from the General Fund would need to increase by \$52,174 from the amount appropriated for the fiscal year ending in 2026.

## **Death Benefit Plans**

### **Death Benefit Plan for Members of TSERS**

The actuarial valuation of the Death Benefit Plan for members of TSERS as of December 31, 2024, shows that the plan has liabilities of \$149 million. Against these liabilities, the plan has current assets of \$68 million. Prospective contributions by the state based on a contribution rate equal to 0.13% of compensation have a present value of \$239 million. The present and prospective assets, which amount to \$307 million, exceed the liabilities of \$149 million by \$158 million.

In October 2025, Gallagher presented its draft five-year experience study, which has been proposed to the Board for adoption at this meeting. According to the experience study report, had the proposed assumptions and methods been reflected in the December 31, 2024 actuarial valuation, the surplus would have been \$159 million rather than \$158 million. This does not change the results of the December 31, 2024 actuarial valuation, but may be useful information for the Board in its consideration of future funding and benefit levels.

**Policy Option for Consideration by the Board.** Recommend no change to the current contribution rate or benefit structure. ***Making no recommendation does not require a vote of the Board.***

### **Separate Insurance Benefit Plan for Law Enforcement Officers**

The actuarial valuation of the Separate Insurance Benefits Plan for Law Enforcement Officers as of December 31, 2024, shows that the plan has liabilities of \$52 million. Against these liabilities, the plan has current assets of \$54 million, which exceed the liabilities of \$52 million by \$2 million.

In October 2025, Gallagher presented its draft five-year experience study, which has been proposed to the Board for adoption at this meeting. According to the experience study report, had the proposed assumptions and methods been reflected in the December 31, 2024 actuarial valuation, the surplus would have been \$17 million rather than \$2 million. The significant difference is primarily due to a proposed change in the assumed rate of investment return on plan assets. This does not change the results of the December 31, 2024 actuarial valuation, but may be useful information for the Board in its consideration of future funding and benefit levels.

**Policy Option for Consideration by the Board.** Recommend no change to the current benefit structure and do not request additional appropriations. ***Making no recommendation does not require a vote of the Board.***

### **Contributory Death Benefit**

Benefits payable under the Contributory Death Benefit Plan are supported entirely by the contributions of the participants and the investment earnings on those contributions. The actuarial valuation as of December 31, 2024, shows that the plan has liabilities of \$1,546 million. Against these liabilities, the plan has current assets of \$249 million. Prospective contributions of participants eligible for benefits have a value of \$1,055 million. The total present and prospective assets amount to \$1,304 million, which are less than the liabilities of \$1,546 million by \$242 million.

In October 2025, Gallagher presented its draft five-year experience study, which has been proposed to the Board for adoption at this meeting. According to the experience study report, had the proposed assumptions and methods been reflected in the December 31, 2024 actuarial valuation, the funding shortfall would have been \$90 million rather than \$242 million. The significant difference is primarily due to a proposed change in the assumed

rate of investment return on plan assets. This does not change the results of the December 31, 2024 actuarial valuation, but may be useful information for the Board in its consideration of future funding and benefit levels.

The Board's consulting actuary has advised that, based on the assumptions of the actuarial valuation, the current assets and contribution rates of the plan are not adequate with the current plan provisions and contribution rates. Pursuant to S.L. 2020-29, no decision of either the State Board or the Local Board related to this plan can take effect unless and until the same decision has been made and voted on by the other Board.

As part of Session Law 2025-6 (House Bill 506, "State Investment Modernization Act"), the General Assembly added the State Employees' Benefit Trust (SEBT) described in G.S. 135-7(g) to the list of "Retirement Systems" funds in G.S. 147-69.2(b)(8). This allows the new North Carolina Investment Authority (NCIA) to apply some discretion in how the funds are invested, rather than being almost entirely invested in the Bond Index Fund as in the past. If the NCIA significantly adjusts the asset allocation of the SEBT in a manner that would be expected to generate greater long-term expected investment returns, the consulting actuary would take this into account in their future assumption recommendations, which would (all else being equal) tend to reduce the funding shortfall.

**Policy Option for Consideration by the Board.** No new recommendation. ***Making no new recommendation does not require a vote of the Board.***

**Summary of Alternatives  
For Presentation to the 2026 General Assembly**

**This draft is prepared under the assumptions that the Board adopts alternative #2 for DIPNC, and alternative #2 for the NCSGPF, as described in these materials.** If the Board takes different actions, it is suggested that the Board direct staff to make any updates necessary to conform to Board decisions prior to communicating this summary to the legislature.

<b>Retirement System</b>	<b>Employer Contributions</b>	<b>Enhanced Benefits</b>
Teachers' and State Employees' Retirement System	Establish employer contribution rate at 17.49%, an increase of 0.35%, increasing recurring costs by \$47.1 million to General Fund and \$2.4 million to Highway Fund. <sup>1</sup>	None
Consolidated Judicial	Establish employer contribution rate at 40.68%, an increase of 2.95%, increasing recurring General Fund costs by \$3.1 million. <sup>2</sup>	None
Legislative	Establish employer contribution rate at 17.87%, a decrease of 0.39%, decreasing recurring General Fund costs by \$14,000. <sup>3</sup>	None
Disability Income Plan	Establish employer contribution rate at 0.06%, a decrease of 0.01%, decreasing recurring costs by \$1.5 million to General Fund and \$0.1 million to Highway Fund. <sup>4</sup>	Contingent increase to compensation up to 3.25% (see footnote). <sup>6</sup>
National Guard Pension Fund	Establish State contribution of \$1,173,123, increasing recurring General Fund costs by \$52,174. <sup>5</sup>	Amend G.S. 127A-40(a) to change \$105 to \$110; \$10.50 to \$11.00; and \$210 to \$220.
Death Benefit Plans	No change	None

**FOOTNOTES:**

<sup>1</sup>The estimated payrolls for the 2025 Session of the General Assembly were \$13,450,413,000 for the General Fund and \$697,659,000 for the Highway Fund.

<sup>2</sup>The estimated payroll for the 2025 Session of the General Assembly was \$105,457,000.

<sup>3</sup>The estimated payroll for the 2025 Session of the General Assembly was \$3,620,000.

<sup>4</sup>The estimated payrolls for the 2025 Session of the General Assembly were \$14,983,576,000 for the General Fund and \$697,659,000 for the Highway Fund.

<sup>5</sup>The employer contribution for fiscal year ending June 30, 2026 under continuing budget authority is \$1,120,949. The recommended contribution for the fiscal year ending in 2027 is \$1,126,618 if the change in the "Enhanced Benefits" column is not made, and \$1,173,123 if the change in the "Enhanced Benefits" column is made.

<sup>6</sup>In the event that a permanent across-the-board salary increase for State employees is enacted and effective on or before June 30, 2026, the Board directs RSD staff to increase the base rate of compensation upon which DIPNC benefits are calculated, by an equivalent percentage to the generally applicable salary increase for State employees, no greater than 3.25%. The Board directs staff to apply the adjustment prospectively to benefits payable from DIPNC, effective the first day of a calendar month 90 days after enactment of the permanent across-the-board salary increase for State employees.