



January 29, 2026

Summary of Funding/Benefits Alternatives for Recommendations and Decisions for Fiscal Year Ending in 2027

Local Governmental Employees' Retirement System (LGERS) Board of Trustees

Executive Summary

This document summarizes alternatives for the Board's funding and benefits recommendations and decisions for the fiscal year ending in 2027.

For LGERS itself, the Board sets employer contribution rates and has limited authority to provide increases to ongoing retirement benefits (COLAs) or one-time payments to beneficiaries (supplements). For the other benefit programs described in this memo, the Board does not establish funding or benefit requirements. For those programs, the Board may make recommendations to the legislature informed by the most recent annual valuation reports from the consulting actuaries, published in October 2025.

Staff believes the following are substantive issues for the Board to consider:

- (1) Establishment of employer contribution rates for LGERS.
- (2) Whether to recommend a benefit improvement under the Firefighters' and Rescue Squad Workers' Pension Fund (FRWSPF).

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

LGERS

G.S. 128-30(d)(5) requires that employer contributions to LGERS 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 under a contribution rate policy adopted by the Board of Trustees and known as the ‘required employer contribution’ rate.” G.S. 128-30(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 Contribution Rate Policy

The most recent LGERS actuarial valuation report documents the ADEC rates for the fiscal year ending in 2027. The “ADEC Prior to Contribution 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. For employees other than law enforcement officers (non-LEOs), the “ADEC Prior to Contribution Policy” is 15.37% of pay. For law enforcement officers (LEOs), it is 17.61% of pay.

2. 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 protect against potential adverse experience for the five fiscal years ending 2023 through 2027. **The recommended contribution rates for the fiscal year ending in 2027 under the ECRSP are 15.10% of compensation for non-LEOs and 17.10% of compensation for LEOs.**

For non-LEOs, the rate is determined as the prior year’s policy contribution (14.35%) plus 0.75%.¹ For LEOs, the rate is determined as the non-LEO rate (15.10%) plus 2.00%.² These ECRSP rates will result in contributions that are less than the ADEC from part (1), by a total of \$31 million for the fifth year of the five-year ECRSP.³ This difference between the employer contributions and the ADEC is likely to be disclosed in the State’s 2027 Annual Comprehensive Financial Report (ACFR), in a table that will also show the amounts employers have contributed in excess of the ADEC for the first four years of the ECRSP.

The employer contribution rates under the ECRSP for the fiscal year ending in 2027 represent an increase of \$80 million from the rates that employers are paying for the fiscal year ending in 2026.

Cost of Living Adjustment to Retirement Allowances (COLA) or One-Time Supplements. Under G.S. 128-27(k) and (k1), the Board may authorize a COLA no greater than 4%, or a one-time supplement that is no greater than 4% of the annual retirement allowance, under the following limitations:

¹ Additional adjustments would have been required if there had been any enacted change in benefits, assumptions, or methods, not yet incorporated in the policy contribution, with an effect measured by the consulting actuary. However, there have been no such changes. Another adjustment would have been required if the non-LEO rate described in part (1) above (15.37%) differed from the policy rate of 15.10% by more than 1.00% of compensation, but it does not.

² Additional adjustments would have been required if there were enacted LEO-specific changes in benefits not yet incorporated in the policy contribution, with an effect measured by the consulting actuary, but there have been none.

³ 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 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 difference between the ECRSP and ADEC rates (\$31 million) is estimated as \$1,701,083,000 (the LGERS LEO payroll from the aforementioned memo) multiplied by 0.51% (the difference between 17.10% in part 2 and 17.61% in part 1), plus \$8,433,512,000 (the LGERS non-LEO payroll) multiplied by 0.27% (the difference between 15.10% in part 2 and 15.37% in part 1). 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.

- Any COLA or one-time supplement must be no greater than inflationary increases defined by statute.
- If the Board authorizes a one-time supplement, the Board must also determine that it will not provide a COLA taking effect in the same year as the one-time supplement.
- The cost of a COLA or supplement authorized by the Board is limited to the actuarial investment gains. Notwithstanding the amount of investment gains experienced in a year, the ECRSP provides that the employer contribution for any year through fiscal year ending in 2027 will be adjusted for the effect of any benefit change taking effect during the year. This would include the cost of COLAs or supplements.

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 authorization by the LGERS Board of Trustees of either of the following: (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 on September 1, 2026, payable October 2026.”

The Board could recommend that the legislature enact a COLA or one-time supplement. For LGERS, this type of recommendation would amount to inviting the legislature to establish the employer contribution rate for local governments, which the legislature has not done in modern history. In such a scenario, the legislature would not be bound by the LGERS Board’s funding policy. For example, the legislature could decide to first increase local governments’ employer contribution rates to ADEC levels (from 15.10% to 15.37% for non-LEOs, and from 17.10% to 17.61% for LEOs, for an estimated increase of \$31 million), before further increasing contributions for a COLA or supplement.

Additionally, given that no investment gains are available to fund it, any recommendation that the legislature enact a COLA or supplement would need to be accompanied by a recommendation for how to pay for it.

Gallagher has calculated that the unfunded actuarial accrued liability, for benefits already promised by LGERS, was \$6.3 billion as of December 31, 2024. The “Additional 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 LGERS can receive the contributions necessary to pay the new benefits. For example, a permanent 3.5% COLA would add \$775 million (or \$0.8 billion) to the already-existing \$6.3 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 LGERS. 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 \$852 million 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. Local government budgets are used to fund LGERS employer contributions. A recommendation of a direct legislative appropriation from State funds, while not impossible, would represent a change in funding sources.

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 0.98% of compensation (currently \$99 million per year) for 12 years.
- From Table 2, a one-time supplement equal to 3.5% of the annual pension benefit would increase the employer contribution rate by 0.70% of compensation (currently \$71 million) for one year.

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.)
0.5%	\$111 million	\$122 million	0.14%	\$14 million
1.0%	\$221 million	\$243 million	0.28%	\$28 million
1.5%	\$332 million	\$365 million	0.42%	\$43 million
2.0%	\$443 million	\$487 million	0.56%	\$57 million
2.5%	\$554 million	\$608 million	0.70%	\$71 million
3.0%	\$664 million	\$730 million	0.84%	\$85 million
3.5%	\$775 million	\$852 million	0.98%	\$99 million
4.0%	\$886 million	\$973 million	1.12%	\$114 million

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.)
0.5%	\$10 million	\$11 million	0.10%	\$10 million
1.0%	\$21 million	\$23 million	0.20%	\$20 million
1.5%	\$31 million	\$34 million	0.30%	\$30 million
2.0%	\$42 million	\$46 million	0.40%	\$41 million
2.5%	\$52 million	\$57 million	0.50%	\$51 million
3.0%	\$63 million	\$69 million	0.60%	\$61 million
3.5%	\$73 million	\$80 million	0.70%	\$71 million
4.0%	\$84 million	\$92 million	0.80%	\$81 million

Policy Option for Consideration by the Board of Trustees. Establish the employer contribution rates in accordance with the ECRSP for the fiscal year ending in 2027, equal to 17.10% for LEOs and 15.10% for all other employees. This requires an increase of approximately \$80 million in employer contributions as compared to the fiscal year ending in 2026.

Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF)

The Board adopted the State Contribution Rate Stabilization Policy (SCRSP) on April 29, 2021. Under Section IV of the SCRSP, the recommended State contribution for the fiscal year ending in 2027, prior to any adjustment for benefit changes, is the greater of (1) the appropriation for the fiscal year ending in 2026, plus \$350,000; or (2) the underlying actuarially determined contribution (ADEC) determined by the consulting actuary for the fiscal year ending in 2027. The ADEC for the fiscal year ending 2027 is the mathematical contribution amount 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.

Item (1) is equal to the recommended and actual appropriation for the fiscal year ending 2026 (\$20,752,208) plus \$350,000, or \$21,102,208. Item (2), the underlying ADEC, is \$353,544 according to the most recent FRSWPF actuarial valuation report. Therefore, the SCRSP results in a recommended State contribution of \$21,102,208 for the fiscal year ending in 2027, which is the greater of item (1) or item (2). This is \$350,000 greater than the amount appropriated by Section 3.6.(e) of Session Law 2025-89 for the fiscal year ending in 2026. The SCRSP provides that adjustments to this recommendation should be considered in relation to benefit increases as described below.

Board's Prior Recommendation for Benefit Improvement. In January 2025, the Board recommended to the legislature that benefits be improved from \$175 to \$180 per month. This recommendation was incorporated in a version of Senate Bill 257 that has passed the Senate (SB 257 [v. 3], Section 41.23), and in a version that has passed the House of Representatives (SB 257 [v. 6], Section 41.23). However, no version of Senate Bill 257 has been agreed upon by both chambers and enacted.

Additional Benefit Increase. Under Section V of the SCRSP, the Board could recommend that the General Assembly increase the pension amount by up to \$4 per month. 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 \$184. It would also be possible for the Board to recommend an increase in a lesser increment (for example, to \$181, \$182, or \$183), but this memorandum presents \$184 as the alternative as it would afford the greatest improvement within the guidance of the SCRSP. Such a recommendation would not require that the Board make any additional request for State funding or for an increase in the member contribution rate.⁴

Policy Options for Consideration by the Board of Trustees.

- **Funding:** Under the SCRSP, the Board would recommend a State appropriation for the fiscal year ending in 2027, equal to \$21,102,208. This would require an increase of \$350,000 in the recurring appropriation as compared to the fiscal year ending in 2026.

⁴ The SCRSP provides that the Board may recommend a benefit increase if all of four conditions are met. The first condition is that the benefit increase is not greater than the most recent June-over-June increase in the Consumer Price Index. That increase was 2.67%, which would equate to a \$4 increase in the monthly pension (i.e., a \$5 increase would exceed this limit). The second condition is that the Board recommends an additional appropriation if required, equal to the "Benefit Improvement Funding Requirement" (BIFR) as defined in the policy. The consulting actuary has determined that the BIFR would be \$0 for any benefit improvement up to \$4 per month. The third condition is that the Board recommends the member contribution rate be increased or maintained at a target level. The consulting actuary has determined that under the SCRSP, the target member contribution rate would remain at \$15 for any benefit improvement up to \$4 per month, so that no adjustment to the member contribution would be necessary. The fourth condition is that the Board consider any change that has been made to the tax on gross premiums on property insurance. This tax is provided under G.S. 105-228.5. Under S.L. 2025-64 (House Bill 546, "Medicaid Modernization"), the General Assembly permitted freestanding psychiatric hospitals to participate in the Healthcare Access and Stabilization Program (HASP), which was previously available only to acute care hospitals. In the legislative fiscal note (<https://www.ncleg.gov/Sessions/2025/FiscalNotes/House/PDF/HFN546v3.pdf>), legislative staff explained that HASP payments to prepaid health plans (PHPs) will be considered capitation payments subject to the gross premiums tax. Legislative staff estimated that the additional tax revenue will be \$1 million or less for each of the next five fiscal years. In the judgment of Retirement Systems staff, this legislative change is not material to the Board's analysis.

- Benefit Improvement:
 - 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 \$175 to \$180.
 - The Board could recommend a further increase in the benefit to \$184.

Registers of Deeds' Supplemental Pension Fund (RODSPF)

The most recent valuation report shows the recommended Actuarially Determined Employer Contribution (ADEC) for the fiscal year ending in 2027. The ADEC is the mathematical contribution amount 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 estimated ADEC of \$0 for the fiscal year ending in 2027 is less than the 1.5% of monthly receipts collected pursuant to Article 1 of Chapter 161 of the N.C. General Statutes. (Statutory amounts collected were \$861,459 in calendar year 2024 and \$862,618 in calendar year 2023.) Additionally, the fund is sufficiently funded with a funded ratio of 144.6% as of December 31, 2024.

Based on these facts, the monthly benefit amount could be increased. However, increasing the maximum monthly benefit would make it more likely that the ADEC in a future year would be greater than \$0.

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

Death Benefit Plans

Death Benefit Plan for Members of LGERS

The actuarial valuation of the Death Benefit Plan for members of LGERS as of December 31, 2024, shows that the plan has liabilities of \$58 million. Against these liabilities, the plan has current assets of \$79 million. Prospective contributions by the participating employers have a present value of \$49 million. The present and prospective assets, which amount to \$128 million, exceed the liabilities of \$58 million by \$70 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 \$72 million rather than \$70 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 rates or benefit structure. ***Making no recommendation does not require a vote of the Board.***

Contributory Death Benefit Plan

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 assumption that the Board adopts a motion to recommend a benefit improvement for the FRSWPF to \$184 per month. 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.

Retirement System	Employer Contributions	Enhanced Benefits
Local Governmental Employees' Retirement System (Actions by Board of Trustees)	Increase employer contribution rate by 0.75% for non-LEOs and 1.00% for LEOs, increasing the cost to employers from fiscal year ending 2026 to fiscal year ending 2027 by \$80,262,170. ¹	None
Firefighters' and Rescue Squad Workers' Pension Fund	Increase appropriation for fiscal year ending 2027 by \$350,000, to \$21,102,208. ²	Increase monthly pension to \$184.
Registers of Deeds' Supplemental Pension Fund	No change ³	None
Death Benefit Plans	No change	None

FOOTNOTES:

¹The employer contribution rates for the fiscal year ending June 30, 2026, are 14.35% for employees other than Law Enforcement Officers (non-LEOs) and 16.10% for Law Enforcement Officers (LEOs). For the fiscal year ending June 30, 2027, the Board's Employer Contribution Rate Stabilization Policy calls for contribution rates of 15.10% for non-LEOs and 17.10% for LEOs. The total estimated payroll for the 2025 Session of the General Assembly was \$10,134,595,000, which includes \$8,433,512,000 for non-LEOs and \$1,701,083,000 for LEOs.

²The appropriated State contribution for fiscal year ending June 30, 2026 is \$20,752,208. For the fiscal year ending June 30, 2027, the Board's State Contribution Rate Stabilization Policy calls for a contribution at least equal to \$21,102,208, which is an increase of \$350,000.

³The total actuarially determined employer contribution for fiscal year ending June 30, 2027 is \$0 after taking into account the assets in excess of the actuarial accrued liability. Contributions to the fund are set by statute.