

North Carolina Retirement Systems

Contribution-Based Benefits Cap

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Gallagher

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Session Law 2014-88

- Session Law 2014-88 enacted an “Anti-Pension-Spiking Contribution-Based Benefit Cap” to be set by the Board of Trustees for both TSERS and LGERS
- Per Session Law 2014-88
 - “The Board of Trustees shall adopt a contribution-based benefit cap factor recommended by the actuary, based upon actual experience, such that no more than three-quarters of one percent (0.75%) of retirement allowances are expected to be capped”
- The Board of Trustees shall modify such factors every five years, as shall be deemed necessary, based upon the five-year experience study as required by G.S. 135-6(n)
- As such, Gallagher has updated analysis of such factors adopted by the Board of Trustees in October 2020
- We refer to these as “CBBC Factors”

Basis for Current CBBC Factor

TSERS				
Contribution-Based Benefit Cap Factor (CBBC)	Percent of Benefit Provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.5	22.2%	78	27	0.27%

LGERS				
Contribution-Based Benefit Cap Factor (CBBC)	Percent of Benefit Provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.7	21.3%	29	7	0.23%

- In October 2020, the Board approved a factor of 4.5 for TSERS and a factor of 4.7 for LGERS as shown in the tables to the left.
- Results in tables were developed by the prior actuary.

Considerations in Setting CBBC Factor

- Conceptually, the factor is a comparison of a member's contributions to the member's retirement benefit. A CBBC factor of 5 suggests that as low as 20% of the pension can be derived from member contributions without the pension being capped.
- A lower CBBC factor results in more pensions being subject to capping.
- If a higher CBBC factor is set such that less than 0.10% of expected retirements are subject to capping, the expected variation in payroll over the next five years is such that the chosen factor may not give meaning to the statute.

Considerations in Setting CBBC Factor

Historical Experience

TSERS				
Year	Applicable CBBC Factor	Retirements	CBBC Affected Retirement	Pct. Retirements Affected by CBBC
2015	4.8	12,355	15	0.12%
2016	4.5	12,071	29	0.24%
2017	4.5	12,187	40	0.33%
2018	4.5	12,322	40	0.32%
2019	4.5	12,239	46	0.38%
2020	4.5	12,224	41	0.34%
2021	4.5	13,335	58	0.43%
2022	4.5	14,237	100	0.70%
2023	4.5	12,878	68	0.53%
2024	4.5	12,810	58	0.45%
Total		126,658	495	0.39%

LGERS				
Year	Applicable CBBC Factor	Retirements	CBBC Affected Retirement	Pct. Retirements Affected by CBBC
2015	5.1	4,490	4	0.09%
2016	4.7	4,547	17	0.37%
2017	4.7	4,558	20	0.44%
2018	4.7	4,828	33	0.68%
2019	4.7	4,928	28	0.57%
2020	4.7	4,798	26	0.54%
2021	4.7	5,094	41	0.80%
2022	4.7	5,391	67	1.24%
2023	4.7	4,975	66	1.33%
2024	4.7	4,939	62	1.26%
Total		48,548	364	0.75%

Observations

- 2015, the year with the highest CBBC factors, led to the lowest incidence of retirements being affected by the CBBC
- Recent years have demonstrated higher incidence of retirement being affect by the CBBC – this is likely due to unexpectedly higher salary increases in recent years

Considerations in Setting CBBC Factor

- The analysis and sample factors on the following slide are based on the following:
 - Valuation data used for the December 31, 2024 valuations
 - Analysis based on valuation data from other years may produce different results
 - Retirement assumptions based on proposed experience study assumptions
 - Based on proposed retirement assumptions, 10,813 TSERS members and 4,213 LGERS are expected to retire in 2025
 - The cap on Average Final Compensation for 2025 is \$134,687.67
 - The cap on Average Final Compensation is adjusted annually for inflation
- Various levels of CBBC factors based on the above are on the next slide

Considerations in Setting CBBC Factor

TSERS				
Contribution-Based Benefit Cap Factor (CBBC)	Percent of Benefit Provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.2	23.8%	368	87	0.81%
4.3	23.3%	329	80	0.74%
4.4	22.7%	300	73	0.68%
4.5	22.2%	268	65	0.60%
4.6	21.7%	245	60	0.56%
4.7	21.3%	213	53	0.49%
4.8	20.8%	189	48	0.44%
4.9	20.4%	168	44	0.40%
5.0	20.0%	148	39	0.36%
5.1	19.6%	131	35	0.32%
5.2	19.2%	116	30	0.28%
5.3	18.9%	104	27	0.25%
5.4	18.5%	89	24	0.22%
5.5	18.2%	73	19	0.18%
5.6	17.9%	66	17	0.16%
5.7	17.5%	62	16	0.15%
5.8	17.2%	61	16	0.15%
5.9	16.9%	49	12	0.11%
6.0	16.7%	42	11	0.10%
6.1	16.4%	39	10	0.09%

LGERS				
Contribution-Based Benefit Cap Factor (CBBC)	Percent of Benefit Provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.7	21.3%	178	46	1.10%
5.0	20.0%	125	36	0.84%
5.1	19.6%	103	30	0.71%
5.2	19.2%	89	26	0.62%
5.3	18.9%	77	23	0.54%
5.4	18.5%	66	20	0.47%
5.5	18.2%	60	18	0.42%
5.6	17.9%	52	16	0.37%
5.7	17.5%	47	14	0.34%
5.8	17.2%	40	12	0.29%
5.9	16.9%	36	11	0.27%
6.0	16.7%	31	10	0.24%
6.1	16.4%	27	9	0.21%
6.2	16.1%	24	7	0.17%
6.3	15.9%	20	6	0.14%
6.4	15.6%	17	5	0.12%
6.5	15.4%	16	5	0.11%
6.6	15.2%	13	4	0.09%

- Current Factor
- Minimum Allowable Factor
- Midpoint of Minimum and 0.10% of Members

Considerations in Setting CBBC Factor

- For TSERS, a cap factor that would be expected to apply to at least 0.10% of expected retirements, but no more than 0.75% of expected retirements, would be in the range of 4.3 to 6.0. The midpoint of this range is 5.2. The cap factor in current administration is 4.5.
- For LGERS, a cap factor that would be expected to apply to at least 0.10% of expected retirements, but no more than 0.75% of expected retirements, would be in the range of 5.1 to 6.5. The midpoint of this range is 5.8. The cap factor in current administration is 4.7.

Certification

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. We are Fellows of the Society of Actuaries, Enrolled Actuaries, Members of the American Academy of Actuaries, and Fellows of the Conference of Consulting Actuaries. We meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States of the American Academy of Actuaries to render the actuarial opinions contained herein. We are available to discuss this report with you at your convenience.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Gallagher performed no analysis of the potential range of such future differences.

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