



North Carolina Retirement Systems

MEMORANDUM

TO: Teachers' and State Employees' Retirement System Board of Trustees (TSERS Board)
Local Governmental Employees' Retirement System Board of Trustees (LGERS Board)

FROM: Patrick Kinlaw, Director of Policy, Planning, and Compliance

DATE: October 30, 2025

RE: Contribution-Based Benefit Cap – Average Final Compensation Threshold for 2026

This memorandum describes the “threshold” amount of average final compensation for which, if a TSERS or LGERS member retires effective in 2026 with average final compensation greater than or equal to the threshold, the retirement allowance may be subject to the contribution-based benefit cap (CBBC).

N.C.G.S. § 135-5(a3) and § 128-27(a3), for TSERS and LGERS, respectively, generally limit retirement allowances to the CBBC. The CBBC does not apply to members whose average final compensation (AFC) is less than a certain amount, which is called the “threshold” for purposes of this memo. Only members with an AFC greater than or equal to the threshold may be subject to the CBBC. The threshold increases each calendar year, in accordance with statute, for retirements effective in that year.

N.C.G.S. § 135-5(a3) and § 128-27(a3) each state in pertinent part: “Notwithstanding the foregoing, the retirement allowance of a member with an average final compensation of less than one hundred thousand dollars (\$100,000), as hereinafter indexed, shall not be subject to the contribution-based benefit cap. The minimum average final compensation necessary for a retirement allowance to be subject to the contribution-based benefit cap shall be increased on January 1 each year by the percent change between the June Consumer Price Index in the year prior to retirement and the June Consumer Price Index in the fiscal year most recently ended, calculated to the nearest tenth of a percent (0.1%), provided that this percent change is positive.” (Emphasis added.) “Consumer Price Index” (CPI) is defined in both N.C.G.S. § 135-1(7c) and § 128-21(7c) as “the Consumer Price Index for All Urban Consumers (CPI-U), U.S. City Average, all items, not seasonally adjusted, standard reference base, as published by the Bureau of Labor Statistics of the U.S. Department of Labor.”

The threshold of \$100,000, which was effective January 1, 2015, has been increased each year with inflation. The threshold was \$134,687.67 for retirements effective in calendar year 2025.

The CPI, as published by the Bureau of Labor Statistics, increased by 2.7% from June 2024 to June 2025. Therefore, there will be an increase of 2.7% in the threshold under N.C.G.S. § 135-5(a3) and § 128-27(a3), effective January 1, 2026.

This means that the dollar amount of the threshold will increase to \$138,324.24 effective January 1, 2026.