



RETIREMENT SYSTEMS DIVISION (RSD)

Proposed Employer Contribution Rate Stabilization Policies (ECRSPs)

State (TSERS) and Local (LGERS) Retirement Systems

April 30, 2026



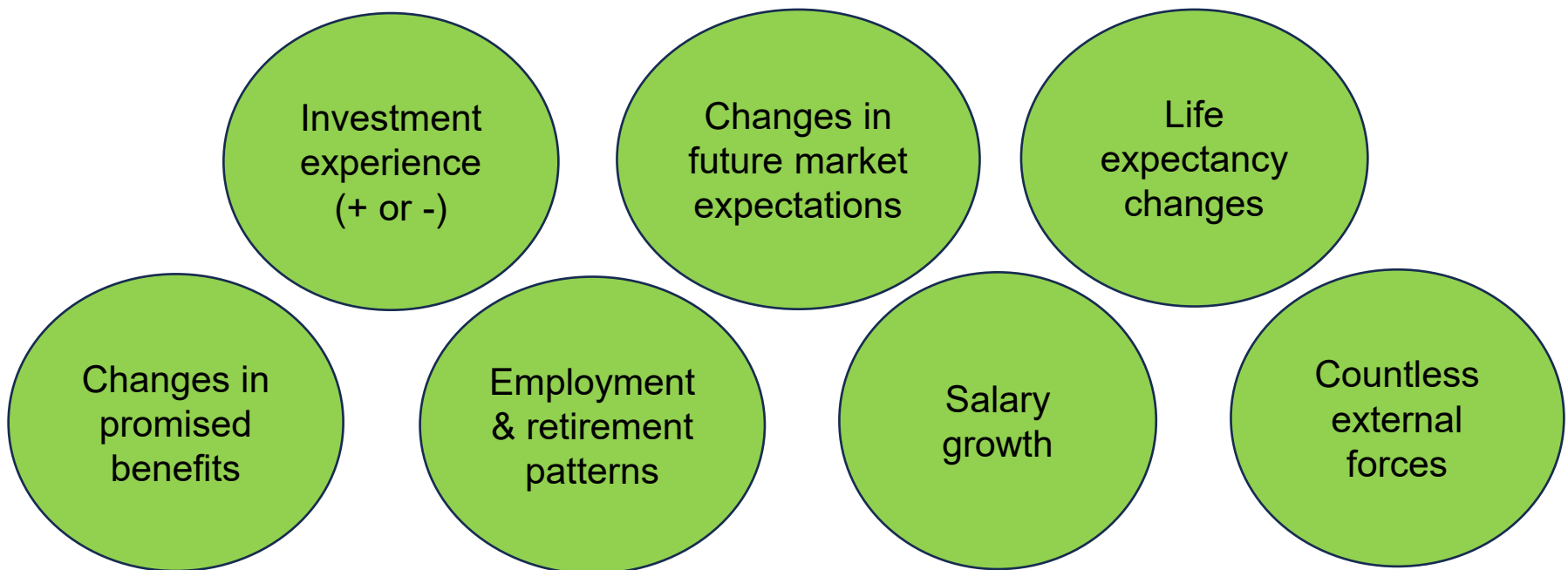
North Carolina
Retirement Systems

Discussion Guide

- Background
- Development of Proposed ECRSPs
- Highlights of Proposed ECRSPs
- Proposed Motion (Each Board)

Background

- Members contribute 6% of compensation to TSERS and LGERS
- Employers contribute an additional percentage that varies over time
- Currently 17.14% (TSERS), 14.35% (LGERS Non-LEO), 16.10% (LGERS LEO)
- TSERS and LGERS need to remain on track to be funded for their promises, no matter what happens



Background

- Each October, Gallagher delivers the latest actuarial valuation, including an actuarially determined employer contribution (minimum ADEC) for the fiscal year that begins next July
- Minimum ADEC can change quite a bit from year to year
- And there can be undercurrents causing it to trend up or down over many years

Could Employers Just Contribute Minimum ADECs Every Year?

Yes!



Pros

- Guaranteed to contribute actuarially sufficient amount
- Will not contribute more than actuarially sufficient amount

However:



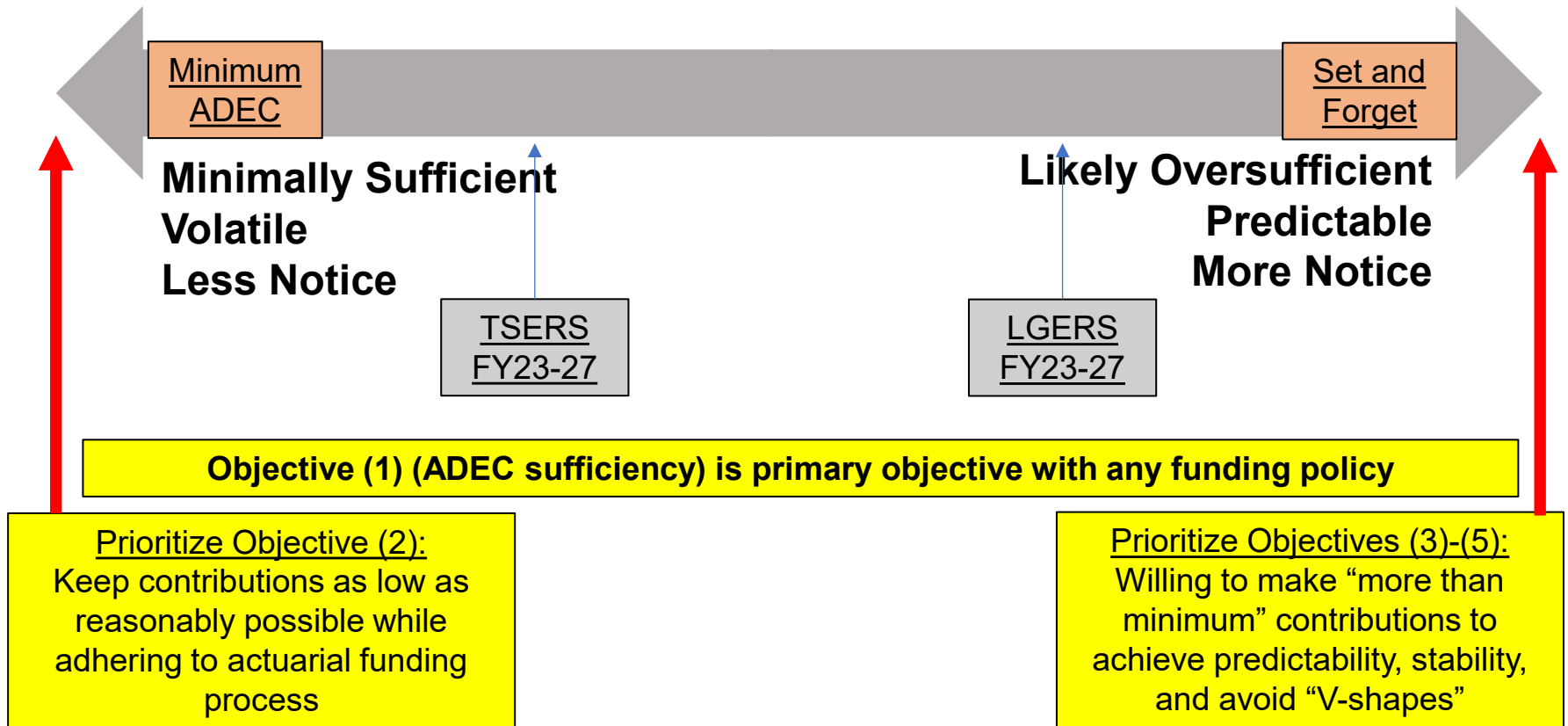
Cons

- Year-over-year unpredictability in the rate (“**volatility**”)
 - Investment returns
 - Population changes
 - Can be big surprise year-over-year increases
 - More chance of “V” shapes
- Minimum ADEC not known until 8 months before fiscal year

Role of the ECRSPs

- Both TSERS and LGERS first adopted ECRSPs in 2016, and have amended / renewed the policies over time
- Policies balance several objectives:
 - (1) *Deliver contributions at least equal to ADECs*
 - (2) *Avoid committing to contributions far in excess of ADECs*
 - (3) *Increase budget predictability as much as possible*
 - (4) *Position budgets as well as possible for time after ECRSP expires*
 - (5) *Avoid “V” or “W” shape in employer contribution patterns*
- Policy may recommend contribution rates that exceed the minimally sufficient rate over time, in the interest of objective (3), (4), or (5)
- Current ECRSPs expire 6/30/2027 for TSERS and LGERS

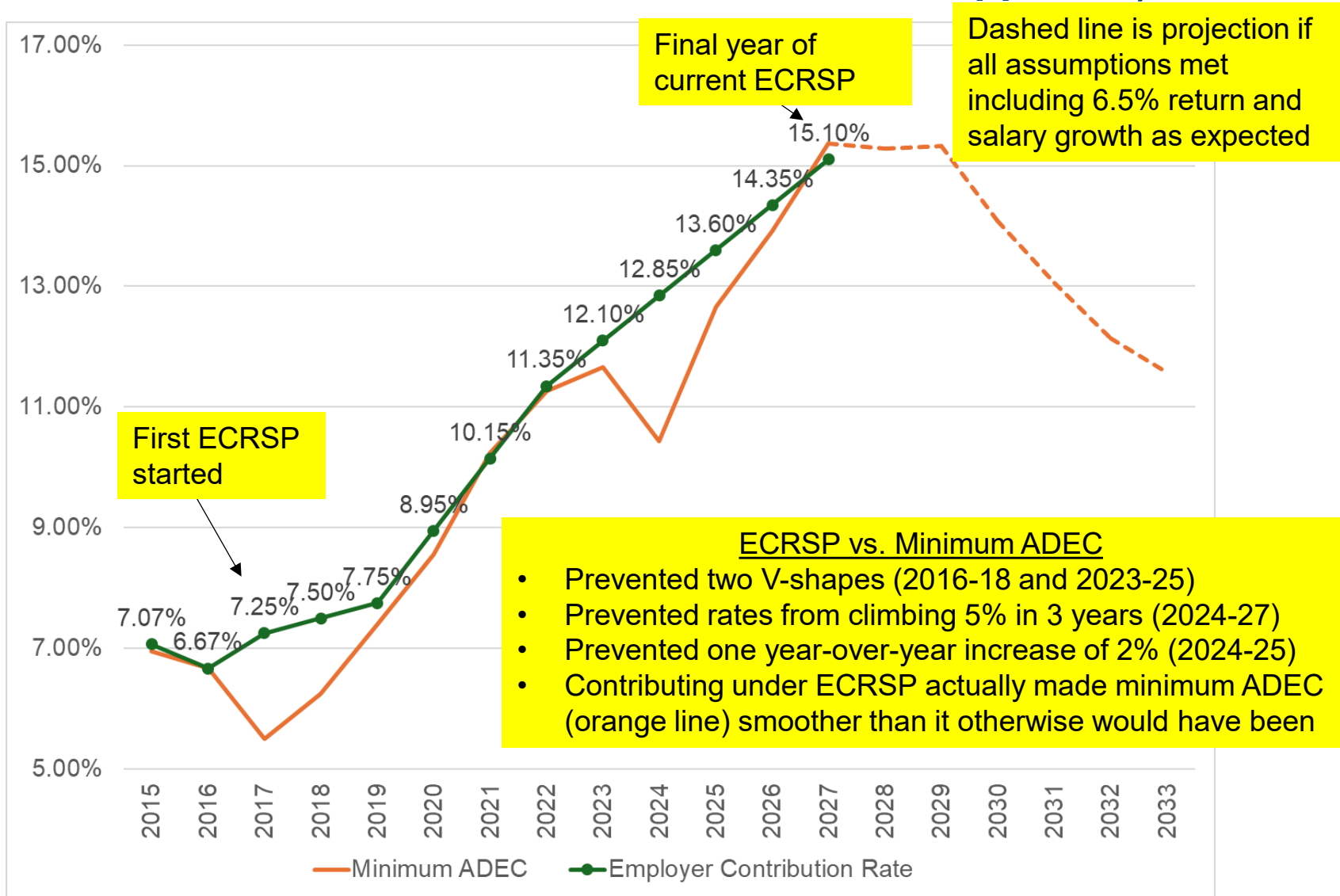
Funding Policy – Spectrum of Alternatives



Performance of ECRSPs, FY 2017-2027

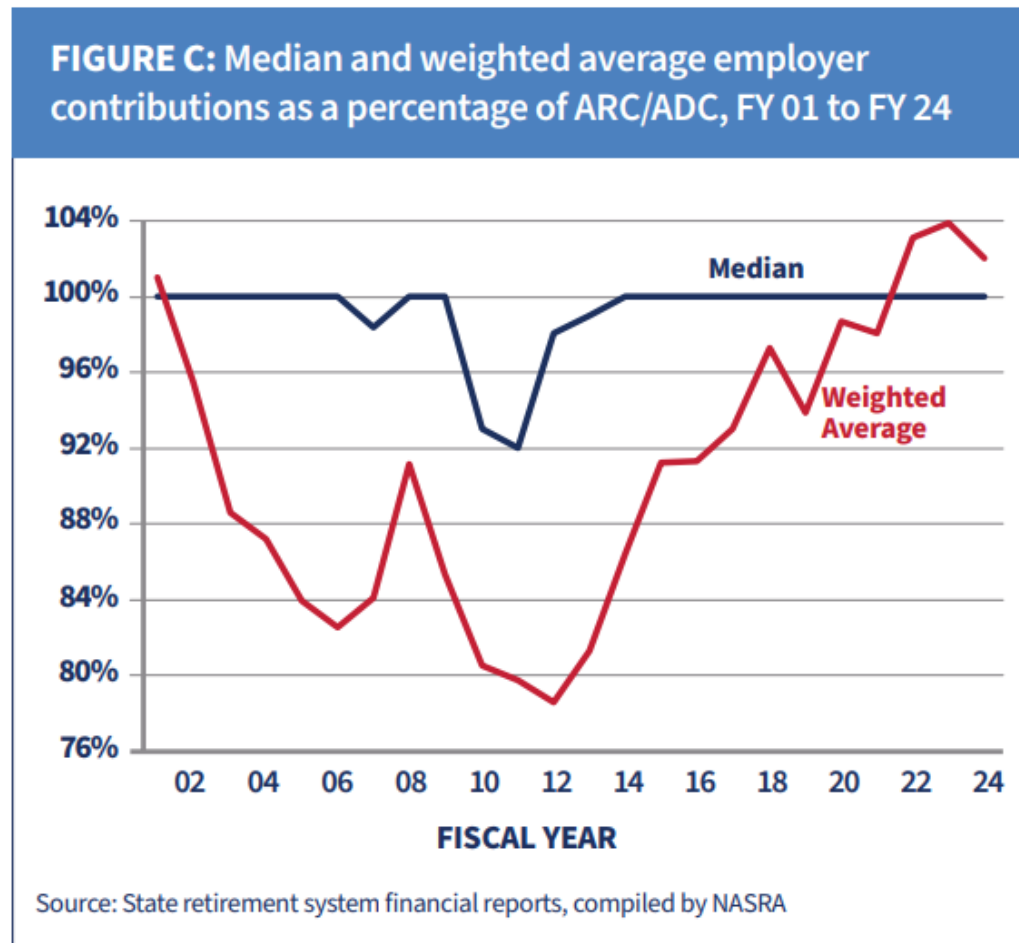
- ECRSPs were first adopted in 2016, just as the Retirement Systems were beginning to foresee a bumpy (and escalating) road
- Since then, the road has become more bumpy, and more escalating, than first envisioned
 - Necessary changes in assumptions, including investment return
 - Actual investment performance
 - Salary increases greater than assumed in 2020 experience study
 - Pandemic, natural disasters, and other budgetary pressures
- **ECRSPs have been crucial policies in helping the Retirement Systems achieve a balance of the objectives**
- **ECRSP has particularly made planning and budgetary decisions more predictable for local governments, where there are about 900 entities who have to prepare and adjust for cost changes**

Example – LGERS Non-LEO Contrib. Rates, FY Ending 6/30 (Similar Charts for LGERS LEO and TSERS Are in Appendix)



Meanwhile, Around the Country....

- “State and Local Government Contributions to Statewide Pension Plans: FY24,” NASRA, Jan. 2026



Meanwhile, Around the Country.... (Continued)

- “State and Local Government Contributions to Statewide Pension Plans: FY24,” NASRA, Jan. 2026

Trends:

- Dedicated funding sources to supplement or replace traditional sources. For example, “dedicated sales taxes, insurance policy surcharges, budget surplus monies, mineral and severance tax revenues, and others” including lottery revenue.
- Allowing different employers to elect to contribute more in earlier years.
- Specific one-time (or recurring biennium) appropriations to address unfunded liability, prefund COLAs, or serve another purpose.
- Adding a statutory requirement to receive ADC has helped some systems.

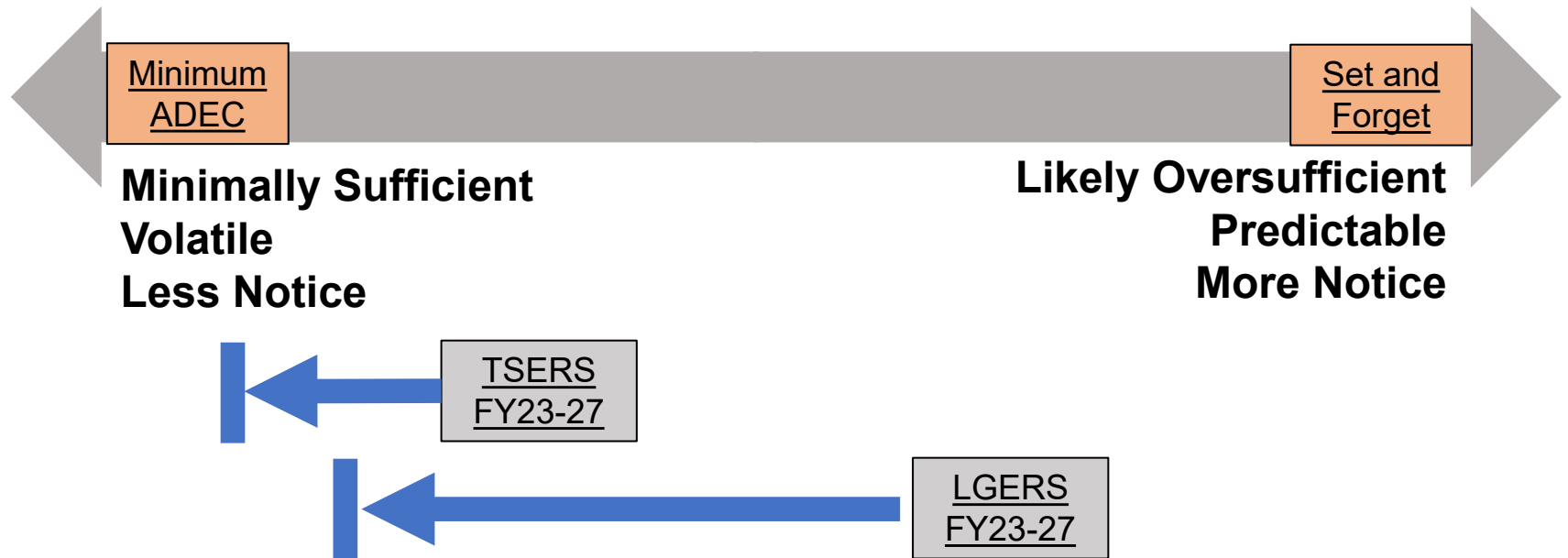
Development of New ECRSP Proposals

- For the past 4+ months, RSD staff has facilitated numerous discussions with stakeholder groups and employer representatives
- Considered many different options on “spectrum” of alternatives for both TSERS and LGERS
- Discussed tradeoffs of “keeping rates as low as possible” vs. “keeping rates predictable”
- Reviewed actuarial analysis from Gallagher
- Considered likely “performance metrics” of different approaches, including
 - How likely is it to cause “V” shapes?
 - How likely is it to cause big year-over-year surprises?
 - How much would employers contribute above the minimum ADEC?
 - And more

General Feedback from Employers and Stakeholders

- ECRSPs have been working... but contribution rate burden has increased to a difficult level for many employers
- Appreciation for steps taken by General Assembly and Boards in efforts to make costs more predictable and stable, including investment governance, lengthening unfunded liability amortization period to 15 years, maintaining other elements of smoothing in the actuarial methods, and involving employers in ECRSP development
- Desire to work toward a future where employer burden will level off / decline, and investment gains can work for both employers and retirees
- Importance of minimizing / mitigating “V-shapes” (esp. LGERS) – a decline in contribution rates would be welcome, but ideally should not be followed by an increase
- Some increased appetite for moving to “left” of spectrum

Funding Policy – Subjective Illustration of New Proposals



Different Environment from 5 Years Ago

- Latest actuarial projections show minimum ADECs would be expected to plateau / decline if all assumptions are met
- (However, both TSERS and LGERS should still be prepared for the possibility of continued increases if there is significant unfavorable investment or other experience in the coming years)
- This is different from five years ago, when projections were showing a very good chance of continued increases
- Experience study indicated comfort level with 6.5% return assumption
- Extending unfunded liability amortization period from 12 years to 15 years will help somewhat with volatility of minimum ADECs (but will still be volatile)

High-Level Description of Proposed TSERS ECRSP “Policy Rate” (Please See Draft Policy for Exact Provisions)

- Generally, follow the pattern of the “minimum ADEC” as it changes over time (up or down). **BUT....**
- Do not wait until October for the actuary’s calculation of rate effective next July
- Instead, use actuary’s projection published nine months earlier, in January
- Add 0.50% of pay as margin in case October calculation turns out to exceed January projection of contribution rate
- Allows rate to be reasonably well known 17 months before the fiscal year begins, rather than waiting until 8 months before it begins
- Notably for TSERS purposes, it allows for full biennium budgeting
- If the final October calculation of minimum ADEC turns out to be greater than the January projection plus 0.50% of pay, the policy rate would be increased to whatever the minimum ADEC is
- Policy rate also adjusted for assumption / benefit changes after January projection

High-Level Description of Proposed LGERS ECRSP “Policy Rate” (Please See Draft Policy for Exact Provisions)

- Similar to TSERS concept of using actuary’s projection published in January, plus 0.50% of compensation. Notable differences:
- If rate is declining, the policy rate will only “accept” half of the decline in the first year of a declining pattern
- In second (or more) consecutive year, it will “accept” 75% of decline in rates
- Reason is the added importance of avoiding “V-shapes” in LGERS, which means approaching declines in rates more cautiously
- If actuary’s October calculation turns out to be greater than the January projection plus 0.50%, the LGERS policy will not adjust the rate higher to reach the ADEC

Proposed ECRSP Provisions Regarding Benefit Improvements

- Both policies have provisions about how Boards would consider recommending (TSERS) or authorizing (LGERS) benefit improvements
- Policies would allow consideration if there have been gains on the actuarial value of assets (which incorporates five-year-smoothing of gains) “greater than or equal to the immediate increase in unfunded actuarial liabilities arising from the contemplated benefit improvement”
- Policies would not automatically recommend / authorize benefit improvements; Board has flexibility to evaluate them when conditions are met
- Policy contribution rate would be adjusted for actuarial measurement of effect of any improvement enacted by legislature or authorized by LGERS Board
- Year-over-year increase in employer contribution rate is not a precondition for recommending/authorizing a benefit improvement

Note: On 1/29/2026, each Board adopted a motion directing staff, when developing the proposed ECRSP, to include provisions giving the Board discretion to recommend that investment gains be used (or for LGERS, to use investment gains) to provide COLAs or supplements to retirees, without recommending a simultaneous increase in the employer contribution rate. The motions stated the Board’s discretion would apply only when there are investment gains on the actuarial value of assets, as documented by the actuarial valuation report, and would remain limited by the relevant statutory provisions.

Other Provisions of Proposed ECRSPs

- Policies have provisions directing that RSD staff communicate or implement “default” recommendations in the absence of specific Board action
- Policies have timeline / example sections at the end to clarify the timing of annual actuarial processes and recommendations
- LGERS policy allows for Board to make a discretionary adjustment in any given year specifically to avoid accepting a decrease in the rate that will obviously cause a “V-shape”
- Policy would set LGERS LEO rate independently from the Non-LEO rate (based on actuary’s calculations/projections specific to LEO rate), whereas previous ECRSPs set it by reference to the Non-LEO rate plus a spread
- Both TSERS and LGERS ECRSPs would be effective through 6/30/2032 and the Boards could extend them as desired

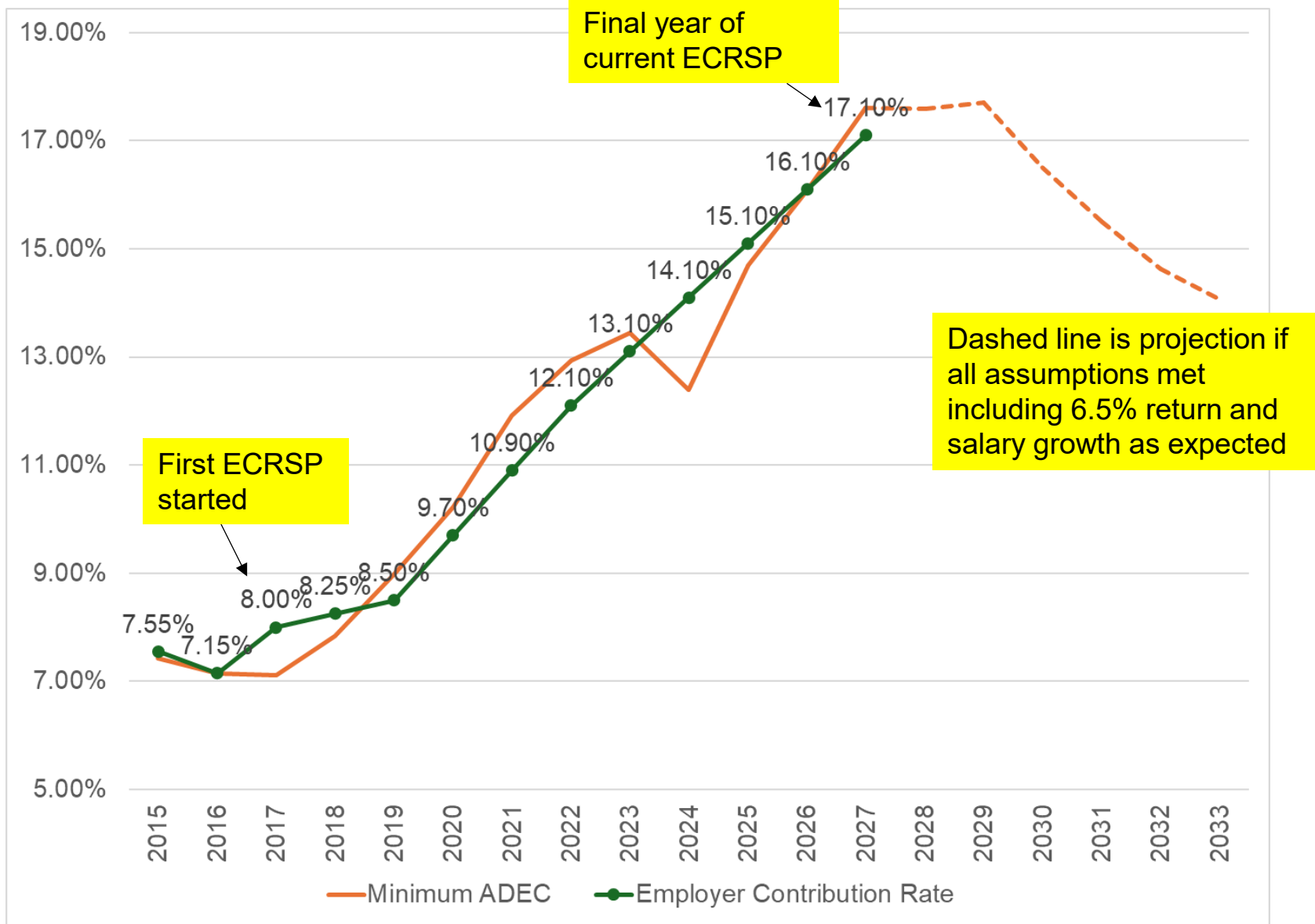
Proposed Motion (Each Board)

- Move that the Board adopt the draft Employer Contribution Rate Stabilization Policy as included in the meeting materials.

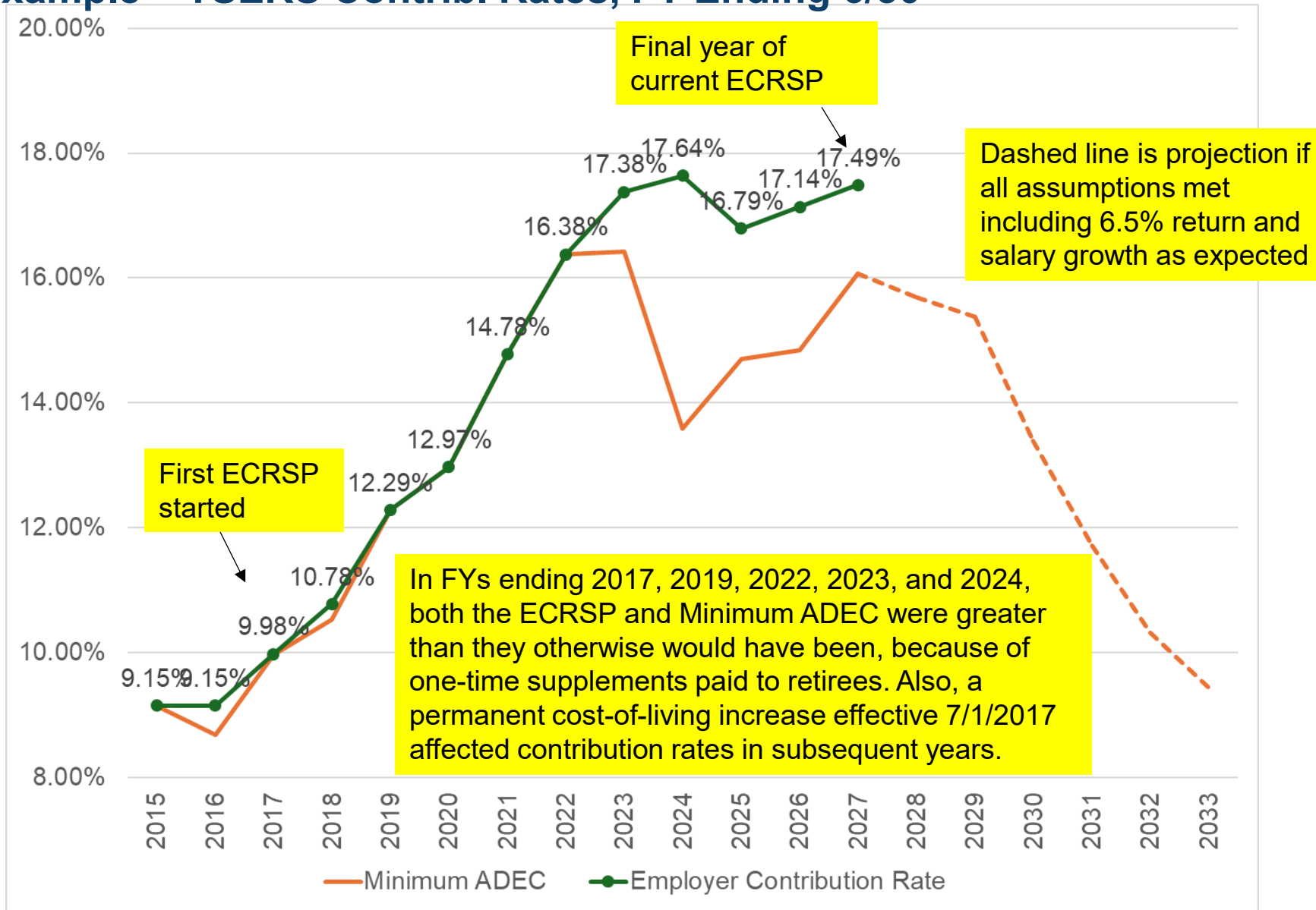
Appendix

- Note: Sources for charts in p. 9 and this Appendix are the historical actuarial valuation reports, published each October by the consulting actuary, and Gallagher's deterministic projections of future employer contribution rates presented to the Boards on 1/29/2026. Please refer to those reports and materials for complete descriptions of each measurement or projection.

Example – LGERS LEO Contrib. Rates, FY Ending 6/30



Example – TSERS Contrib. Rates, FY Ending 6/30



Basic Actuarial Recommendation or “Minimum ADEC”

- Each year, Gallagher measures actuarial condition of system and recommends minimum employer contribution rate (“minimum ADEC”) for the fiscal year beginning 18 months after measurement date

Example

- Measurement as of 12/31/2025
- System assets valued as of 12/31/2025
- Future obligations (“liabilities”) valued as of 12/31/2025, based on enacted benefit levels, census data, assumptions, and methods
- Gallagher presents report to Board in October 2026
- Report includes minimum ADEC effective 7/1/2027 (FY ending 2028)
- Board typically does not adopt (or make Board recommendation to legislature) in Oct. 2026, but may do so in Jan. 2027



Thank you.



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